



“Trident Limited Q1 FY19 Earnings Conference Call”

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Moderator: Ladies and gentlemen good day and welcome to the Trident's Q1 FY19 Earnings Conference Call hosted by Emkay Global Financial Services. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Nitesh Dhoot from Emkay Global. Thank you and over to you sir.

Nitesh Dhoot: Good morning everyone. We would like to welcome the management and thank them for giving us this opportunity. We have with us today Mr. Gunjan Shroff – Chief Financial Officer and Mr. Vipul Garg – Vice President, Investor Relations. I would now hand over the call to the management for opening remarks. Over to you Gunjan sir.

Gunjan Shroff: Thank you Nitesh. Good morning ladies and gentlemen and a warm welcome to the Trident Ltd Quarter 1 FY19 Earnings conference call. Thank you very much for joining us today. We have already uploaded the Q1 FY19 Earnings presentation on the company website and the stock exchange.

Firstly, let us take you to the key updates on the Home Textile Industry we are in:

- FY18 Home textile industry have faced several headwinds primarily due to destocking by large customers in US, uneven procurement cycles, rupee volatility, sharp movements in cotton and yarn spreads, structural changes in various incentive policies by the government of India and unavailability of quality cotton. Despite these unfavorable circumstances we would like to highlight that India will continue to hold competitive advantage as our industry is characterized by high entry barriers in terms of scale, capital availability, skilled labor, customer relationships, sustainability as well as availability of raw material thereby maintaining high quality standards which is one of the key parameters for customer stickiness.
- Indian home textile export players command majority of the market share and I think we all can win even in stressed times. We have received encouraging response from our customers and buyers in various home textile exhibitions held in US UK and India especially for our Bed Linen products which is comparatively a new business for us.
- Out of the total e-commerce sales in US we understand that Bed & Bath Linen online market share to be around 3% to 5% of the total home textile sales in US and is higher in other home textile segments like carpets, upholstery etc.
- We are observing the increasing tensions between the world's two largest economies US and China on policies of hiking the tariff structure on certain commodities and how will it going to impact India and our line of business. Currently it is very early to state anything but our products which we are dealing with remains largely unaffected with this trade war.

- Increasing oil prices, US Fed rate hike amongst others are the main drivers for depreciating rupee which has gone as low as 69.2 per dollar. It is not only the Indian rupee which is depreciating but currencies of other countries have also weakened during last couple of months. We feel that the currency will continue to witness volatility due to these mentioned pressure points. A stronger dollar can be attributed to factors such as higher growth, lower unemployment, higher rates, fiscal spending by the government, lower taxes and the top of curing unequal trade policies pursued by other countries. Accelerated growth, higher the spending power with customers in US and currency support will help us to deliver better results going forward.

In terms of financials for the quarter:

- Our net revenue from operations stood at Rs1,131 crores which is lower by 3% compared to Rs 1166 crores in Quarter 1 of FY 18.
- Our EBITDA has stood at Rs 237 crores translating into an EBITDA margin of 21%.
- Finance cost has come down by more than 16% year-on-year.
- Profit after tax for the current quarter has stood at 59 crores translating to PAT margin of 5.2%.
- Our net debt stood at Rs 2381 crores reduced by Rs 240 crores from Q4FY18 translating Net Debt to Equity ratio at 0.8X and Net Debt to EBITDA at 2.5X.

Coming to Trident and Textile segmental performance:

- Total revenues stood at Rs 916 crores for the home textile segment which is lower by 5% compared to Rs 967 crores in Q1 FY 18.
- Year-on-year Bath Linen business has grown by 47% and Bath Linen business de-grew by 17%. Sequentially Bed Linen business grew by 14%. Realization in Bath Linen business has been stable and in Bed Linen it has improved by more than 15% year-on-year. Both Bath and Bed contribute 47% of the total revenues of the company and Yarn business contributes 34% of the total revenues in Q1 FY 19. Yarn captive consumption has increased by around 100 basis points to 39.5% in the current quarter vis-à-vis 38.5% in FY18 full year.

Coming to our paper segment:

- Revenue has grown by 7% compared to same period last year at Rs. 216 crores. EBIT margins stood at 36%.
- Our copier paper has contributed 50% of the total paper revenue. Paper business contributes 19% of the total revenues of the current quarter.

With strong emphasis to reward the shareholders board has declared first interim dividend of Rs. 60 paisa per fully paid share of Rs. 10 each. Further the board has approved to implement co-generation steam and power plant with a capacity of 2X150 TPH (300 TPH) for each boiler and a power plant of 2 turbines X 30 megawatt (60 MW) each facility in Budhni, MP. The project shall be executed in a phased manner and is expected to be completed by FY21 with the total capital outlay of around Rs. 5.5 billion to be financed by internal accruals and external borrowings. As textile manufacturing is power intensive this facility will help us to reduce dependence on external power and will also ensure an interrupted 24X7 supply of regulated power and steam for our Bath, Yarn and Bed Linen facilities in Budhni, Madhya Pradesh. The company envisages a margin expansion of around 200 basis points as this facility will help us in reducing power and steam cost.

With this we would request the moderator to please open the forum for questions. Thank you.

- Moderator:** Thank you very much. Ladies and gentleman, we will now begin the question and answer session. We take the first question from the line of Bhavesh Chauhan from IDBI Capital. Please go ahead.
- Bhavesh Chauhan:** My question is on the bed-sheet, has the bed-sheet broken even this quarter?
- Gunjan Shroff:** Yes, our bed-sheet unit has breakeven at an EBITDA level in this current quarter. We are neutral at EBITDA level for the bed-sheeting facility we have put in.
- Bhavesh Chauhan:** Second question is on employee cost, we have seen employee cost rising by 16% Q-o-Q, any particular reason for this?
- Gunjan Shroff:** Yes, our salary cost has gone up because it's a onetime impact due to upward wage revision in certain slabs and due to which there is a onetime actuarial valuation impact of leave and otherwise. So, that's a onetime impact otherwise our running rate is around 138 to 140 crores on a quarterly basis. So, this is a one-time impact of around 15 crores.
- Bhavesh Chauhan:** On sales guidance if you would like to give some guidance on what would be the exact rates for utilization of Bed & Bath Linen both?
- Gunjan Shroff:** Our Bed Linen and Bath Linen we have given the guidance of around 50%-60% for our terry towel unit and the same level for our bed-sheeting unit and we remain positive that we would be able to surpass our given guidance for the current fiscal year.
- Bhavesh Chauhan:** So, this is not the exit rate, this is the average rate you're talking about?
- Gunjan Shroff:** This is average utilization for our facilities which we have put in.
- Moderator:** Next question is from the line of Ojasvi Agarwal from India AB Capital. Please go ahead.

- Ojasvi Agarwal:** My question will be related to your FOREX mark to market loss that's appearing and that's of 40 crores. What is the hedging strategy of the company because we see a lot of variation in these FOREX losses quarter-on-quarter and why do they be on I can't understand I mean it's very difficult to predict what the gain or loss is going to be, so could you just give us some...?
- Gunjan Shroff:** Actually, the company is doing forward contracts and roughly 50% of our sales are hedged and since we are an exporting company we are hedging around 50% of our exports and because of a significant rupee depreciation which has happened during the last quarter if we see from 31st March to 30th June, rupee has depreciated from close to 65.20s to 68.50s. So, there is a 5%-6% rupee depreciation in a very short span of time and which impacts exporters like us. Though it is good but on a MTM basis, yes, there is the mark to market which we have to carry for your forward hedges which we have done and hence this is a carry which is coming in the profit and loss account for this particular current quarter.
- Ojasvi Agarwal:** Is this going to result into a gain in the next quarter or how is it going to be? Is it just a mark to market loss, it's a notional loss, it's not...?
- Gunjan Shroff:** That's right, this a notional loss which probably if rupee even remains at the level where it is it would be spread over a period of 12 months. But if rupee depreciates further so as exporters we are happy that rupee should depreciate because that gives us our elbow space. But yes, this Rs 40 crores is a notional loss which if rupee remains at this level it would be spread over a 12 to 14 months period.
- Ojasvi Agarwal:** Are you continuing to hedge in the next quarter in this year FOREX gain or loss I mean what should be exactly....
- Gunjan Shroff:** We continue to follow our board mandated policy of hedging export receivables which is around 40% to 50%. And there is no reason for us to at this point in time to really relook at this policy. We are comfortable at rupee at 68-68.50 and as exporters rupee depreciation is better to us.
- Ojasvi Agarwal:** That's what I was just thinking because its better, so has it resulted in an impact in your overall margin rupee depreciation?
- Gunjan Shroff:** For the current quarter we have already given the impact of 40 crores as is there. Otherwise our average realized rate for the current quarter had been at 67 which is again the market rate for the current quarter had also been at 67. So, from a margin side there has been no negative impact in the particular quarter other than the mark to market loss which is been provided into the profit and loss account.
- Ojasvi Agarwal:** Your terry-towel segment and there is the past utilization has actually gone down from your peak levels to about 45%, so is it because of the destocking thing that's going on in the US or has it eased out or is it expected to be better in the next quarter?

- Gunjan Shroff:** The de-stocking phenomenon has been arrested to a very large extent and now there is a catch up being happening and definitely yes, the positive upside is there for the future quarters to come. But yes the destocking phenomenon has been arrested largely so we can expect some positive upside in the next future quarters as well.
- Ojasvi Agarwal:** So, you are saying that our capacity utilization is expected to be in the range of 50% to 55% in the next quarters?
- Gunjan Shroff:** That's right.
- Ojasvi Agarwal:** What is the other income besides the FOREX gain or loss that you are showing? In last year June quarter there was in other income of 20 crores which is besides the FOREX gain of 9.5 crores whereas in this quarter this other income is about 8.5 crores, so what would be this?
- Gunjan Shroff:** New accounting standard does not allow net the interest expenditure with the interest income. But this is broadly the treasury income in terms of our investments into other FD based investments which are kept in banks. So, these are small investments which is almost Rs. 8 to Rs 10 crores a quarter.
- Ojasvi Agarwal:** About the CAPEX that you're planning how much debt are you planning to raise for this CAPEX?
- Gunjan Shroff:** We are planning to do a debt equity ratio of 2.5:1 for the particular CAPEX of Rs. 5.5 billion, so roughly 375 crores odd is the term loan portion which will be put up in a foray of three years.
- Moderator:** We take the next question from the line of Sumant Kumar from Motilal Oswal Securities. Please go ahead.
- Sumant Kumar:** My question is regarding towel, we have seen a jump in capacity utilization in FY17 from 41 to 50 and hovering at 45% for FY18 and Q1 FY19. So, what are the key initiatives we have taken so we are positive on capacity utilization and it will jump to 50% in FY19, so what are the key initiatives you have from marketing side, the client acquisition?
- Gunjan Shroff:** There are various initiatives with the company has been doing. The company has been aggressively following into US market because that's a mother market which remains to us. So, the company has put up a sizable marketing team in United States to cater to our customers in US. We are also concentrating heavily on our ROW segment which we have not been concentrating till now. And otherwise also there are customers who are having de-stocking phenomenon over the years, so now even that is coming and uptake is coming from that side. So, there are 3-4 pockets which are large pockets in which the company is working for where we are confident that we should be able to achieve approximately 50% to 55% of our capacity utilization as far as terry towel is concerned.

- Sumant Kumar:** Talking about Bed Linen segment we have reached at 55%, so this run-rate is going to sustain, or we are going to do a 50% capacity utilization in FY19?
- Gunjan Shroff:** We will do better in bed-sheet and we are positive that we should be doing better from here onwards.
- Sumant Kumar:** So, the 55% will be there for FY 19?
- Gunjan Shroff:** That's right.
- Sumant Kumar:** What was the price increase in paper segment this quarter?
- Gunjan Shroff:** Prices have increased in this particular quarter approximately 5.5% to 6% in the particular current quarter.
- Sumant Kumar:** Y-o-Y or Q-o-Q?
- Gunjan Shroff:** Q-o-Q. Y-on-Y there is a de-growth in terms of prices where approximately 3% however Q-on-Q there is increase of 5.5%.
- Sumant Kumar:** So, YOY de-growth is because of product mix changes or what is the key reason for that?
- Gunjan Shroff:** Not exactly. There are market forces, demand side is there but otherwise the prices are consistent. The prices are consistent as far as paper is concerned.
- Sumant Kumar:** Any price increase you have taken in the month of July or August you're going to take?
- Gunjan Shroff:** Yes we have taken the small increase in the month of July as well.
- Sumant Kumar:** How much?
- Gunjan Shroff:** We have taken a small increase in the month of July.
- Sumant Kumar:** Small increase of 200-300 per ton?
- Gunjan Shroff:** No, we have taken almost 50 paisa increase in terms of per kg realization.
- Moderator:** We take the next question from the line of Pankaj Bobade from Axis Securities. Please go ahead.
- Pankaj Bobade:** If I heard it right as you mentioned in the opening remarks you are coming up with the CAPEX of around 550 crores for around 60 megawatts power plant and the debt equity would be 1:1?
- Gunjan Shroff:** No, the debt equity is 2.5:1, the debt would be 375 crores.

- Pankaj Bobade:** Just wanted to understand what is the cost of inventory at this moment?
- Gunjan Shroff:** Cost of?
- Pankaj Bobade:** What is the cotton price and what is the inventory on our balance sheet?
- Gunjan Shroff:** You are talking about for cotton?
- Pankaj Bobade:** Yes.
- Gunjan Shroff:** We actually as producers of Yarn we continue to hold cotton from one season to another season and since we are anyways sitting in the month of August, so we are continuing to hold inventory till the month of October. So, for 3 months consumption we continue to hold cotton inventory in our books.
- Pankaj Bobade:** What is the CMP, current market price for cotton right now?
- Gunjan Shroff:** Current market price is hovering at Rs. 130 a KG.
- Pankaj Bobade:** And what is our inventory cost?
- Gunjan Shroff:** Now obviously this cotton had been stocked in last particular cotton season, so the net of cost without including inventory cost or holding cost is close to Rs.115 to 120.
- Pankaj Bobade:** Is there any chance that we are trying to improve our business with EU?
- Gunjan Shroff:** With European Union?
- Pankaj Bobade:** Yes.
- Gunjan Shroff:** Yes that's right. We have been trying because obviously there are large customers in European Union and we have been trying to make inroads into Europe also. But obviously the kind of size of orders which we have in US that is difficult for Europe but yes definitely we are at trying to make all possible inroads as far as European Union is concerned.
- Pankaj Bobade:** And what benefit would we have US China trade war intensifies as far as industry is concerned and Trident in particular?
- Gunjan Shroff:** At this point in time honestly we are not looking for benefit. We are looking that negative impact does not come and at least at this point in time it doesn't seem that there is a negativity on our industry or home textile industry for exports to US. We're hardly exporting anything to China, so largely we are dominated by US and at this point in time there doesn't seem to be a negative impact.

- Pankaj Bobade:** I mean to say in case some tariffs are imposed on China Bed & Bath Linen side then would we be at advantage?
- Gunjan Shroff:** Yes that would be an opportunist beneficiary. But it will be far-fetched to really go to that extent that Chinese exports which go into US how much would be divert it to India and how much we would be able to take from that I mean we are not quantified and we have not really got into that strategic thought.
- Pankaj Bobade:** Today as you mentioned we are planning to utilize our capacity around 55% both Bed & Bath, so by what year can we reach the optimum capacity or on higher side around 75%-80%?
- Gunjan Shroff:** At this point in time we are more optimistic on the bed-sheeting segment. That seems to be we have already hopeful that bed-sheeting should be able to ramp it up faster than our terry towel units. But nevertheless we are working on both the segments to ramp it up as fast as we can and we are hopeful for this year that we should be able to achieve 55% for both of these segments we are operating at.
- Pankaj Bobade:** By when can we reach 75% or 80% capacity utilization?
- Gunjan Shroff:** I think 2 years is a fair time for us to think from that perspective to reach 75% kind of an utilization as far as towel is concerned.
- Pankaj Bobade:** You mean to say by FY20?
- Gunjan Shroff:** Yes that we should be able to do faster.
- Pankaj Bobade:** You mean to say by FY 20 or 21?
- Gunjan Shroff:** FY21 is when we can expect around 75% capacity for our terry towels unit. In terms of our bed-sheeting unit we should be able to reach our optimum capacity slightly earlier.
- Moderator:** Next question is from the line of Sanket Baheti from GeeCee Investments. Please go ahead.
- Sanket Baheti:** Can you give some idea what is the demand at the retail level in both towels and sheets?
- Gunjan Shroff:** Mr. Baheti terry towels in terms of our domestic segment, I hope you are asking question on our terry towel.
- Sanket Baheti:** Yes terry towels and sheets both.
- Gunjan Shroff:** As far as bed-sheet and terry towels is concerned we are selling approximately 6% to 8% on the domestic side. And at this point in time since we are concentrating more on the export side, so our larger focus remains on the exports but yes, around 6% to 8% we are selling domestically.

- Sanket Baheti:** What's the retail level demand in the US market?
- Gunjan Shroff:** The demand is coming, the demand is picking it up. And as we have seen as we have also recorded earlier that a de-stocking phenomenon is getting arrested. So, obviously there is a demand which is coming at retail counter level as well.
- Sanket Baheti:** In terms of sheets, the demand for us, how is the mix for us? It's in the higher the segment or the lower end of the mid-segment?
- Gunjan Shroff:** We are trying to deliberately concentrate on the typical bed-sheet capacity which we have put up, so at this point in time we are concentrating on mid to high.
- Sanket Baheti:** So, most of the volume is coming at the lower end, so within the mid-segment it's at the lower-end or the upper-end?
- Gunjan Shroff:** I would say at a medium-range, it is again at the medium level only.
- Sanket Baheti:** In the opening remark you said that Bed Linen grew by 47%, right?
- Gunjan Shroff:** That's year-on-year.
- Sanket Baheti:** And 14% Q-on-Q?
- Gunjan Shroff:** That's right.
- Sanket Baheti:** And Bath Linen de-grew by 17% year-on-year?
- Gunjan Shroff:** Bath Linen has de-grew at 17% year-on-year and has de-grown at 13% on quarter-on-quarter.
- Sanket Baheti:** With the rise in the raw material, the cotton prices and we have the inventory till the month of October post if the raw material prices remained at the current level do you think we will be able to pass on the increase in the raw material prices to the customer?
- Gunjan Shroff:** I think the contracts which we execute with the customers is on an elongated basis. So, as such for maybe around 3% to 5% is very difficult really to renegotiate contracts which have already been there. But yes it's a two-way contract, now obviously rupee has also depreciated to a very large extent, so it is not that only at one side of the spectrum rate negotiation may happen. But yes whenever there is a new contract which we go after every two quarters, we can and we do and all of us do.
- Sanket Baheti:** Any change in the terms of the incentives that we receive recently or any update on that?
- Gunjan Shroff:** As far as incentive is concerned we continue to get around 8.2% which is there and which is there for quite some time now for almost a year. There are slew of measures which are being given by the government of India. The government has now announced a positivity uptake in

the amended TUFF scheme. The government yesterday only has put up a circular on imposing 10% additional duty on certain import items. So, not from a direct basis but maybe indirectly demand should be better.

Sanket Baheti: In terms of towels, do you think that we will now be in the upper trajectory itself and there will be no issues of again or demand will be muted for us or something because still we have just degrown on a Q-on-Q sequentially also. So, it will be one odd quarter more or then now it's only the upward trend from the next quarter itself?

Gunjan Shroff: We are positive that for next couple of quarters we should be able to do better than what we have done. And we would be working on a guidance in our earlier remark.

Sanket Baheti: As we have break even in the sheet segment, so what are the guidance on the EBITDA margin for the full year?

Gunjan Shroff: Typically sheets is a business which is a high margin business but typically not for this particular year but overall we are positive that sheets would contribute close to 15% EBITDA going forward as we go towards next 6 to 8 quarters.

Sanket Baheti: And for the full-year for the full business?

Gunjan Shroff: For the full-year for the?

Sanket Baheti: Entire business at the company level including the paper and everything.

Gunjan Shroff: We would be in the range of high-teens of around 20s-21s.

Moderator: We take the next question from the line of Sachin Kasera from Lucky Investment. Please go ahead.

Sachin Kasera: Two questions, one was on the Paper side? Are we looking at any acquisitions or any Brownfield expansion as far as the Paper business is concerned?

Gunjan Shroff: Okay that's one.

Sachin Kasera: What is the full year target for debt reduction in the current year?

Gunjan Shroff: In terms of Paper we have no immediate plans in terms of mergers or acquisitions. Otherwise also Paper segment is doing good to us so no real plans to do any acquisitions at this point in time.

Sachin Kasera: Any Brownfield CAPEX in terms of increasing or debottlenecking the capacity in Paper segment?

- Gunjan Shroff:** We have been doing small maintenance CAPEXs, approximately 100 crores a year and that we continue to do. But no significant CAPEX rather than the one the Board has approved for a captive cogeneration power plant. In terms of your second question which was the repayment side that is what is the annual repayment? Our annual repayments are close to 280 crores and we continue to repay our loans. In fact, we continue to prepay our loans as well as high-cost loans.
- Sachin Kasera:** For the full year what is the type of net debt reduction we can foresee when we look at FY19?
- Gunjan Shroff:** Since most of our term loans now are under subsidized loans so we want to adhere to the schedule of repayments and within the schedule of repayments we would be reducing our debt on a term-loan basis by 300 crores.
- Sachin Kasera:** One more clarification on the bed-sheet business, you mention that you can look at 15% contribution, you are saying that bed-sheet will contribute 15% of the textile profits or you are saying 15% EBITDA margin?
- Gunjan Shroff:** Bedsheet should continue to make around 15% of our EBITDA margins as we go forward in the next 4-6 quarters.
- Sachin Kasera:** On the Rupee side, how are we hedged going forward, can you just indicate on that?
- Gunjan Shroff:** In terms of Rupee as we have also told earlier that we are hedged approximately 40%-45% and we want to continue hedging the way we have been doing in the same proportion we have been doing.
- Sachin Kasera:** But can you mention the rate at which we are hedged for this 40-45%?
- Gunjan Shroff:** We are hedged at 67.50.
- Sachin Kasera:** This is for FY19?
- Gunjan Shroff:** Yes, this is a weighted average rate for FY19 for the next six months.
- Sachin Kasera:** FY20 we are fully open as of now?
- Gunjan Shroff:** Yes, that's right.
- Sachin Kasera:** As a policy when do we start hedging for FY20 as per the internal policy of the company?
- Gunjan Shroff:** As a matter of policy we continue to hedge approximately 35%-50%, that's a Board mandated policy, so by those levels only we are keeping our hedges.
- Sachin Kasera:** I understand, do we do on a rolling 12-month basis, in the sense every quarter?

- Gunjan Shroff:** Yes, we try to do it on a rolling 9-month basis.
- Sachin Kasera:** What is the current new hedge we are able to get? Are we able to get 71-72 for the new hedges that we're taking?
- Gunjan Shroff:** Yes, we are getting 4.5% annualized premium so approximately 25 paisa is what we get on a monthly basis. So, today's spot is closed to around 68.70, so 6 months down the line you get something like 70.
- Sachin Kasera:** So, that should help some benefit in terms of margin compensate for the increase in raw material, if any going forward?
- Gunjan Shroff:** I mean obviously as exporters Rupee depreciation is good to us, no doubt about that.
- Sachin Kasera:** One last question, if you could give some outlook on the Yarn segment how is that looking?
- Gunjan Shroff:** Yarn segment at this point in time it is very difficult because how the Cotton prices open in the next particular Cotton season probably that would be a better way of looking at from a Yarn side. But for this particular quarter since Cotton we have already stocked up to the next Cotton season, so we are hopeful, we are confident that we would be able to maintain the margins we have been doing in terms of Yarn business for the second quarter as well.
- Sachin Kasera:** What is your overall outlook, what is your sense on the Cotton season that is going to come?
- Gunjan Shroff:** I think Cotton prices, too many compulsions now.
- Sachin Kasera:** I understand but just give us your broad sense, whatever that you can sense on the market?
- Gunjan Shroff:** I think obviously the government has also come up that the MSP, they will be purchasing at MSP plus 50% for the farmers, so current prices are around Rs. 130. At this point in time, it is very difficult but, yes, we look this that prices do not seem to be softening too heavily. The prices should remain at these levels or maybe slightly a shade below but not too much downside.
- Moderator:** We take the next question from the line of Parth Parekh from Equity Master. Please go ahead.
- Parth Parekh:** When we took the initiative of doubling the capacity in the terry towel segment, definitely we would have envisaged our capacity utilization to be at higher levels and currently we are just guiding at 50%. So, why is the low guidance, is it because of increased competition from global players, or is it because of subdued demand in the US?
- Gunjan Shroff:** I think it's a culmination of a lot of factors, probably not one factor probably have that 50%. I think obviously increased competition, lot of industry players are also coming up in this business, people are also adding capacities and of course, so overall competition, demand, as

well as other factors have all culminated into capacity utilization of 50-55% but what is gone is there that going forward we have a better guidance in terms of our utilization levels.

Parth Parekh: Can you elaborate more on the increased competition which you talked about?

Gunjan Shroff: Obviously lot of other industry players are also adding capacities in this particular segment, so we would not really like to name the companies but yes, competition is also adding up capacities, lot of existing manufacturers are ramping up capacities within the terry towel as well as Bed Sheet segment. So, obviously increased competition is definitely there in the business.

Parth Parekh: What was the primary reason behind the reduction in Other Income this time?

Gunjan Shroff: The Other Income we have just segregated the FOREX income because it's a one-time extraordinary item, so it's not reduction per se. In terms of our quarterly numbers, our Other Income has been at 8 crores for this particular quarter.

Parth Parekh: Can the penetration from Copier Paper increase from the current levels of 50%?

Gunjan Shroff: No, we are not looking for increasing our Copier because 50% is what we want to maintain.

Parth Parekh: What would be the sustainable EBITDA margins in this segment?

Gunjan Shroff: In the Paper segment?

Parth Parekh: Yes.

Gunjan Shroff: Paper, we are operating at a high percentage of EBITDA but sustainably I think around 35-36% is high, we are very confident it should be maintained.

Moderator: We take the next question from the line of Sameer Dalal from Natwarlal & Sons. Please go ahead.

Sameer Dalal: I have a more qualitative question. You talked about increasing your utilization to 75% by FY 21. You have put a very clear chart that the industry is growing at only 4.4% and you also talked about competition increasing capacity, so that means you are going to have constant competitive pressures facing you. So, what are the ways you are going to be able to increase your utilization? How much you are going to be able to push your sales versus competitors? How are you going to be able to capture some market share? If you can give us some light on how you all plan going about doing something like that?

Gunjan Shroff: Of course, when you have capacities, you try to expand your production base and there are a lot of customers with whom we are aggressively into a dialogue and we are very confident that for customers with whom we were not servicing earlier, we have started making strong inroads into that. Lot of European customers are there. We have also tried to US. Demand is also

picking up in the US and significant inroads are being made to a lot of other customers with whom we were not servicing earlier.

Sameer Dalal: But is it on price basis that you are getting the entry? Are you more price competitive than what your competitors are which means margins going to be a certain bit under pressure?

Gunjan Shroff: I think in terry towel business we have a very strong pedigree. We have been operating in this particular segment from 1998. We have been working in this segment for last 20 years and within that 20 years price is definitely one of the parameters, but it is not the only parameter, the quality of your product, your serviceability, delivery points, your design points, the technological advancements which we can demonstrate to our customers, so all these factors are there which does make a very strong inroad. The price point is also there, we should not say that price is not an important element but it is not the only element in which you get orders.

Sameer Dalal: So, in another way to ask, is there any benefit that you have compared to your customers in keeping the prices lower? Is your cost of manufacturing lower and if it is what is the advantage or what are the reasons your costs are lower? Because eventually if it comes to price competitiveness also you need to have lower cost of production as well.

Gunjan Shroff: In terms of cost of production we have a large integrated facility. Our terry towels Unit as well as bed-sheeting Unit is 100% vertically integrated. So, in terms of rights from cotton to end of the merchandise is fully integrated, so the cost of production definitely we would be able to form an optimally utilized in the cost side. The scale is there, the cost is there, so definitely it does help to make inroads into customers.

Sameer Dalal: So, you think this is going to be the way you increase market share by pricing at least slightly lower and then giving, like you said, the quality benefit and the design benefit.

Gunjan Shroff: Again as I have said earlier also, that probably pricing is not the only inducement. Probably at this point in time pricing is the last thing for which the customer comes to anyone. It is probably the design, the novelty, the kind of towels you can provide, that makes a lot of difference and we have a strong team and a strong back up team to make it happen.

Sameer Dalal: The second question is, on your FOREX loss. You did explain that this is a notional kind of a loss but even on a notional loss this is again futures sales that you are going to make, and I correct? The 40 crores losses against the hedges that you have made for future sales, not for the existing one.

Gunjan Shroff: That's right.

Sameer Dalal: So, you will be writing back that loss when the income actually comes in because even if you were to sell at the price that you had quoted at, you would still be making the margin that you were happy to make at that price point, so it's just an impact, it's not really going to affect the margin at the end of the year, right?

- Gunjan Shroff:** That's right. It's a notional loss at this point in time. And as you rightly said, yes, it's the sale which we have done at this given exchange rate but nevertheless we look forward to Rupee depreciation really because that's how we can make more business to us.
- Moderator:** We take the next question from the line of Meet Jain from Prithvi Finmart. Please go ahead.
- Meet Jain:** Actually I had joined late. My one question is regarding the MSP. What is MSP's impact on the company going forward? How this new MSP prices is going to impact the company and its margins?
- Gunjan Shroff:** As you rightly said you joined late, but what we have been discussing is that for the particular time in which we have already stocked cotton, our prices are already fixed. For example, we have already fixed our cotton rates at around Rs. 115-120, so till the next cotton season which starts from October and mid of November, the impact of cotton or the new prices will start kicking in from there in. At this point in time the current price of cotton is at Rs. 130 and how it impacts when the cotton season really opens that is probably something to be seen. In terms of our own assessment we presume that the rates would be slightly softened from here but not too much downside is there in terms of cotton rates.
- Moderator:** We take the next question from the line of Gunjan Kabra from Niveshaay. Please go ahead.
- Gunjan Kabra:** My question on your Paper segment, like how do we see the outlook and pricing scenario for the Paper because of the Chinese import ban on the waste paper, so how do we see the outlook in the Indian Paper industry and the pricing scenario?
- Gunjan Shroff:** In terms of the price for the Paper points, as we have already discussed earlier, that we have taken a small increase in the July segment but we are hopeful that the segment should remain stable. We are giving a guidance on a full-year basis around 36% margins and we are forecasting that prices would remain stable, if not increase. It should remain as it is today.
- Moderator:** We take the next question from the line of Bhavesh Jain from Envision Capital. Please go ahead.
- Bhavesh Jain:** Any discussion with government on this MIS of about 4% which is likely to go away?
- Gunjan Shroff:** No at this point in time. At this point in time the government is there to because if you would have seen there are various schemes which the government is also trying to intensify the textile sector. So, at this point in time it doesn't seem to be there in the cards.
- Bhavesh Jain:** How the Cotton Yarn spreads are moving?
- Gunjan Shroff:** I think for the current year we are making around 15-16% in terms of the current yarn business we are in and this seems to be continuing. This seems to continue for at least this particular quarter as well as maybe one or two months of the next quarter as well and then probably

depending on where the cotton prices and how the yarn prices really pan out, we should be better poised to answer this question. At this point in time it remains around 15-16% spread.

Bhavesh Jain: At 75% capacity utilization by FY21, any more investment required for Yarn division?

Gunjan Shroff: At this point in time we are captively consuming 40% of our capacity for existing Terry Towels and Bed Sheets. We already have an open capacity for 60% for doing downstream in our own Terry Towel and Bed Sheets unit. Nevertheless, in case a need arises also, putting up a unit of Yarn may not be that big an issue to really, at this time, no.

Moderator: Thank you. Ladies and gentlemen, that seemed to be the last question for today. I would now like to hand the conference over to the Management for their closing comments.

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

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Emkay Global Financial Services we conclude today's conference. Thank you all for joining us. You may disconnect your lines now.