Trident Limited

Q4&FY16 Earnings Conference Call Transcript
11.30am IST on Monday, May16, 2016

Moderator: Ladies and gentlemen, good day and welcome to the Trident Limited's Earnings Conference Call. As a reminder, all participants' 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 phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Nishid Solanki of CDR India. Thank you and over to you, sir.

Nishid Solanki: Thank you. Good morning and thank you for joining us on Trident Limited's Q4 and FY2016 Earnings Conference Call. Today we are joined by Mr. Pawan Jain – Director, Corporate Affairs, Mr. Gunjan Shroff - Chief Financial Officer and Mr. Nikhil Dalmia - Vice President, Investor Relations. We will commence the call with opening remarks from the management following which we will have an interactive Question-and-Answer Session.

Before we begin, I would like to highlight that certain statements made on the conference call today may be forward-looking in nature and a disclaimer to that effect has been included in the earnings presentation shared with you earlier.

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

Pawan Jain: Thank you, Nishid. Good afternoon, everyone. I welcome you all to Trident Limited's earnings call to discuss our performance for the fourth quarter and year ended 31st March, 2016. As always, I would take you to some of the key developments followed by the operational performance of the company across business segments. Later our CFO - Mr. Gunjan Shroff will give you a summary of our financial results.

I am glad to highlight that Trident registered healthy operational performance during the year with highest ever EBITDA and PAT. EBITDA and profit after-tax stood strong at Rs. 751 crore and Rs. 228 crore respectively.

During the quarter under review, we achieved technology stabilization at our integrated Bed Linen project as well as world's largest compact spinning project under one roof at Budhni, Madhya Pradesh. The compact spinning project would meet the captive requirements for fine counts and super-fine counts for the aforesaid Bed Linen project.

In FY2016, we incorporated a wholly-owned subsidiary ‘Trident Europe Limited’ in United Kingdom with an objective to expand presence in the European markets and also strengthen the distribution reach. We also strengthen our marketing team in India, Europe as well as in US. All these efforts and initiatives would assist us to deliver significant growth in Home Textiles business segment in FY2017. We also expect meaningful contribution from our recently commissioned Bed Linen project as we have started building our order book and expect revenue to start coming in from Q1 FY2017 onwards.

Let me now give you segment-wise perspectives:

Revenues from Textile segment moderated during the year as a result of enhanced capital consumption of yarn as well as subdued yarn realization. In addition, we witness lower-than-expected volume growth in Home Textile at 10% in FY2016. However, we undertook several marketing initiatives to augment our Home Textile business during the year, some of them include expanding our global presence, strengthening our international as well as domestic marketing team and increased reach across more than 260 MBOs in India. We are confident that these efforts will reflect in our performance in the coming quarters. In the domestic market, we received an encouraging response to our grand campaign, “The Affair to Remember” which was launched in July 2015 with ‘Kriti Sanon’ as the brand ambassador. We witnessed more than 50% growth in the domestic business in FY2016 which was driven by higher traction in our established brands like Indulgence, Organica and Home Essentials. E-commerce sales further supported this momentum and I expect this trend to continue in the upcoming years. Despite moderate top-line growth, we were able to improve the operational performance in this segment reflected by higher EBITDA and EBITDA margins. Improvement in the margin profile was on account of healthy margins in Terry Towel business.

Coming to our Paper segment, revenues maintained momentum with healthy improvement in EBITDA and EBITDA margins. Margins enhanced due to our focus on increasing the penetration of value-added Copier Paper. The contribution of Copier Paper was 50% in FY2016. We expect this contribution to steadily improve as we recently introduced ‘Trident Digiprint Copier Paper’ to strengthen our presence in the premium paper segment. We will continue to focus on modern retail and corporates across India to improve the penetration of our eco-friendly brands in the domestic market.

To conclude, I would like to reiterate that, all the CAPEX is behind us and our focus in the years to come will be on sweating these global scale capacities which would help generate significant free cash flows and also improve our return ratios. We anticipated significantly higher exports of Home Textiles products from India and I am glad that we were right in estimating this opportunity across globe. Our utilization level in Terry Towels and Bed Linen will continue to improve in ensuing year led by efforts of our marketing team as well as various strategic initiatives undertaken by us.

I am also glad to announce that the Board of Directors has recommended a final dividend of 3% in addition to two interim dividends of 3% each during the year. So the total dividend for FY2016 now stands at 9%.

With that, I would like to hand over the call to Mr. Gunjan Shroff who will share the financial performance of the company. Thank you.

Gunjan Shroff: Thank you, Pawan. A very good morning to everyone present. I will share the financial highlights for the quarter and full year ended 31st March, 2016.

During FY2016, our net revenues stood at Rs. 3,706 crore compared to Rs. 3,779 crore in FY2015. EBDITA was higher by 8% to Rs. 751 crore translating into EBITDA margin for 20.3%, an increase of 190 basis points year-on-year. Profit after-tax increased by 94% to Rs. 228 crore vis-à-vis Rs. 118 crore last year.

For quarter four of FY2016, the net revenues came in at Rs. 968 crore compared to Rs. 977 crore in the same period last year. EBITDA stood at Rs. 198 crore while EBITDA margin improved by 40 basis points to 20.4%. Profit after-tax increased by 37% to Rs. 56 crore compared to Rs. 40 crore in the corresponding quarter of last year.

Let me now give you a segment wise performance of the Company.

During the year, revenues from Textile segment stood at Rs. 2,904 crore against Rs. 2,960 crore in FY2015. EBIT increased to Rs. 304 crore while PBIT margins improved by 110 basis points at 10.5%. Top-line performance of Textile segment was marginally impacted due to higher captive consumption of yarn for Home Textiles as well as subdued yarn realization. However, the operational performance stood robust.

In the Paper segment, revenues came in at Rs. 802 crore compared to Rs. 818 crore in FY2015. EBIT stood at higher Rs. 165 crore translating to PBIT margin of 20.6%, an increase of 240 basis points year-on-year. Margin on Paper segment improved on account of increased contribution of value-added Copier Paper segment.

Coming to our key financial parameters as on 31st March, 2016, our total debt stood at Rs. 3,368 crore resulting in total debt to equity ratio of 1.9:1. Debt was at peak level during the year after we commissioned the integrated Bed Linen project at Budhni, Madhya Pradesh. I would like to highlight that more than 70% of long-term debt carries lower interest rate as it is under the TUF. We repaid outstanding term loans of Rs. 463 crore including high-cost debt of Rs. 91 crore in FY2016. As a practice, we would continue to repay high-cost term debt ahead of our repayment schedule which would strengthen our balance sheet and also lead to notable savings in the interest cost.

Finance cost during the year has declined by 34% to Rs. 136 crore led by a mix on reduction in base rates, interest equalization scheme benefit and better working capital utilization. Our cash accrual during the year recorded a solid growth of 29% to Rs. 566 crore.

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

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question and answer session. Anyone who wishes to ask a question may press '*' and '1' on their touchtone telephone. If you wish to remove yourself from the question queue you may press '*' and '2'. Participants are requested to use handsets only while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. Thank you. We have first question from the line of Abhilasha Satale from First Global. Please go ahead.

Abhilasha Satale: I would like to know the volume growth on year-on-year basis during the quarter in Terry Towels?

Pawan Jain: In Terry Towels on year-to-year quarterly basis, it was flat. On quarter-to-quarter basis, it was 5% increase and if we take the entire year the volume growth in Terry Towel is about 10%.

Abhilasha Satale: Okay. But, this is inspite of ramping up our new capacities, then why this volume growth is not as expected?

Pawan Jain: We have given a guidance of 15% volume growth, but it has come at 10% in FY16. On quarter-on-quarter basis, there was a 5% volume increase but, with the current visibility and order book, we are confident that next year we will see a volume growth of 15% to 20%.

Abhilasha Satale: Okay. So what kind of utilizations we are having in our new capacity, new Towel capacity?

Pawan Jain: Overall, blended utilization is 60%; that remains the same as in the last quarter.

Abhilasha Satale: Okay. What about Bed Linen, have we started production there?

Pawan Jain: In Bed Linen, we started production in February 2016, so we expect the revenue to start coming in the Q1 of FY2017.

Abhilasha Satale: Okay. What kind of utilization we are looking at in the first-half of the year for Bed Linen?

Pawan Jain: In the full-year, it will be around 40%, so we will reach close to 50% kind of utilization by Q4. So in the first-half, it will be around 30% to 40% kind of utilization.

Abhilasha Satale: Okay. In Terry Towel division, what is giving you confidence to improve utilization and volumes going forward, which has been a little below-expectation during the year?

Pawan Jain: Yes, during last year, the management bandwidth was more towards completion of the new facilities of Bed Linen and now the management's entire bandwidth is on enhancing the marketing initiatives. So, in the last two quarters, we had put in a lot of efforts on marketing initiatives in terms of opening up our new office in UK and strengthening our marketing teams in US as well as Europe and domestic team also. So, all these marketing initiatives which we had taken in the last two quarters will start generating results in Q1 FY2017, so we have the visibility, we have the order book, hence we are hopeful to generate better volume growth in FY2017.

Abhilasha Satale: Okay. Coming to the margins, the operating margin during the quarter has gone down for the Textile division, I am talking about EBIT margin from 12% it has gone down to 10% for Textile division. The margin improvement has largely come from the Paper division. So, I would like to know that while spinning margins have improved for most of the companies and our Home Textile contribution is also going up in the overall product mix, than why these margins are lackluster?

Pawan Jain: If you see post EBITDA, the deprecation during the quarter was high due to capitalization of the new facilities which we started operating in February, so that had some impact on the EBIT margin and as an overall yearly basis, if you see the margins have gone up, the EBITDA margins are around 140 basis points more when compared to FY2015.

Abhilasha Satale: So at EBITDA level, have we seen improvement in the margin?

Pawan Jain: Yes, EBIT is 110 basis-points higher if we compare the entire year. In this quarter because of the higher depreciation, the EBIT margins are lower.

Abhilasha Satale: I am talking about EBITDA level, at EBITDA level, have we seen improvement in margin in Textile division?

Pawan Jain: Within EBITDA margins, the realizations in Paper are flat and in Terry Towel in this quarter on year-to-year basis, there is some decline in realization. So, on an overall basis, in FY16 the Towel realization has declined by around 6%. The Yarn realization on an overall basis has declined by 7%.

Abhilasha Satale: Okay. So going forward how do we see our margins panning out?

Pawan Jain: It all depends on the order book and the additional volumes which can give us better EBITDA. Since the depreciation and interest has been absorbed, I think from the next quarter onwards, the incremental EBITDA will enhance our operational performance.

Abhilasha Satale: Okay. Why in Terry Towel division, the realization has gone down – has our product-mix changed or have we taken any price cuts or anything else?

Pawan Jain: The cotton prices have dropped by around 10% year-on-year and the Yarn prices have also declined by around 7% to 8% year-on-year. So you have to pass on some of these benefits to customers. So that is how it is.

Abhilasha Satale: Okay. Coming to your tax rate, the tax rate on quarter-on-quarter basis has been very volatile, last quarter it was 15%, this quarter it is 23% and for the year it is 17.5%. So what will be the overall tax rate during the medium-term?

Gunjan Shroff: Our tax rate in the medium-term would be around 15% to 17.5%. While we look at the tax rate, it is always better if we look at it from a yearly perspective because in the fourth quarter we have commissioned our Bed Linen project that was Rs. 1,200 crore CAPEX, so we received various incentives like Section 32 AC benefits which come in, in the fourth quarter. So overall our tax rate would be around 15% to 17% as this is what we have reported in FY2016. So it would be around 15% to 17%.

Abhilasha Satale: Okay, on our interest cost, you have already pointed out that TUF benefit as well as interest equalization schemes have helped, but that benefit has also gone down drastically to around 5% of the total debt. So do we see this to continue going forward because our working capital requirement will increase with increase in volumes, so how do we see our interest cost panning out?

Gunjan Shroff: In this year, we are expecting to generate free cash flows of Rs. 400 crore apart from meeting our repayment obligations. So we presume that our interest cost would slightly come down on a yearly basis or at max stay at the current level, it would not go up despite the ramp up capacity of Terry Towel as well as Bed Sheet, because we are not taking any further debt, we are in the repayment stage, so coupled with our repayments and positive free cash flows generation, our interest cost would be slightly less compares to these levels.

Moderator: Thank you. Next question is from the line of Ujwal Shah from Quest Investments. Please go ahead.

Ujwal Shah: Just wanted a brief outlook on how Yarn prices are shaping up for the current year and how do you see cotton output on the global level, how do we see Yarn and cotton for the year ahead?

Pawan Jain: As far as Yarn is concerned, the price have starting strengthening in this quarter. So in Q4, it started strengthening in the month of March. And going forward, we expect that the prices to remain more or less stable. Because most of the large companies have stored Cotton till August and September, we foresee that there will be no significant decline or upside in cotton prices, it will be range bound.

Ujwal Shah: Okay, and what is our cotton sourcing strategy?

Pawan Jain: We source cotton between four to six months of cotton procurement season, so we start procuring cotton in October when the season starts and until March-end, we have cotton for the next five months to six months' period.

Ujwal Shah: Can you briefly touch upon the contribution of value added Yarn compared to our normal Yarn in our revenue base and what was the total Yarn volumes that we sold in for the year?

Pawan Jain: Close to 40% of our Yarn is value-added product and in FY2016 we consumed about 36% of Yarn captively, and the rest 64% was sold outside.

Ujwal Shah: Okay, in terms of margin differential that we see between value-added and our basic cotton, that would be what kind of margin differential?

Pawan Jain: In value-added Yarn, the margins are 2% to 3% higher as compared to the normal Yarn.

Ujwal Shah: So it would be close to 18% to 20%?

Pawan Jain: Yes, that is right.

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

Vikram Suryavanshi: I wanted to know what would be our regular CAPEX here onwards?

Pawan Jain: Our regular CAPEX will be more as a maintenance CAPEX and it would be around Rs. 50 crore a year.

Vikram Suryavanshi: And that includes Paper and Textiles both?

Pawan Jain: Yes, everything taken together.

Vikram Suryavanshi: Okay. And can we get the volumes in terms of Yarn, how much we sold?

Pawan Jain: We are not giving the revenue of Yarn and Terry Towel separately, but I can give you the captive nos; we consumed about 36% of Yarn captively and 64% was sold outside.

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

Sumant Kumar: With respect to Textile segment, could you please brief us on the outlook, price increase, volume growth for FY2017. What will be the overall growth for the company for FY2017 and FY2018?

Pawan Jain: As far as Home Textiles is concerned, we are very hopeful to deliver a volume growth of 15% to 20% in FY2017 and this will start coming in from Q1 itself. This is on the basis of order book, on the basis of the visibility and also the new order that we have started booking for our Bed Sheet business. So we are hopeful to deliver a volume growth of around 15% to 20% in FY2017.

Sumant Kumar: Including Bed Linen?

Pawan Jain: Yes.

Sumant Kumar: And what about Yarn?

Pawan Jain: Bed Linen is a new capacity so whatever revenues will be generated would be 100% incremental, but as far as Terry Towel is concerned, we are hopeful for 15% to 20% volume growth.

Sumant Kumar: So this is Terry Towel, 15% to 20% volume growth?

Pawan Jain: Yes, only Terry Towel.

Sumant Kumar: Okay. So that will be incremental.

Pawan Jain: Yes.

Sumant Kumar: So we are not expecting any price increase in Terry Towel?

Pawan Jain: In Terry Towel, we are not expecting any price increase. As you know, depending on some raw material cost may be higher in the next two quarters or so, but as of now, given the current visibility there is no price increase as of now.

Sumant Kumar: Okay. And what about Yarn?

Pawan Jain: Yarn it is more or less already strengthened towards the fag end of the Q4 so, whatever incremental utilizations happen, that will be stable in this Q1.

Sumant Kumar: So whatever internal consumption we have of 36%, is going to continue for FY2017 – FY2018 and we will be selling 64% outside?

Pawan Jain: We believe that this 36% of captive number will be enhanced to higher levels because with the implementation of this Bed Linen capacity, our Yarn facility will also ramp-up as it will be used 100% captive for Bed Linen so with the increase in volume for our Towel business, you will see an increase in Yarn and a lot of Yarn from internal will be shifted to the Towel business also. So we expect this 36% to enhance to around 45% by the year end.

Sumant Kumar: Okay. So volume de-growth will be there in Yarn segment and the price is stable. So negative growth will continue?

Pawan Jain: In overall top-line?

Sumant Kumar: No, for Yarn.

Pawan Jain: For Yarn, as you know volume will be higher, as realizations will be a little higher but as an overall netting off of captive and external, it will be muted. Whatever incremental growth will happen that will be more of captive.

Sumant Kumar: But when we talk that internal consumption of Yarn is likely to increase from 36% to 45%, it means we are going to consume higher and then your external sales will be lower.

Pawan Jain: That is for the units which is recently commissioned in this quarter, in Q4 FY16. So that will be 100% captive for Bed Linen. Secondly, until we will reach the optimum utilization in sheeting, we will continue to sell this new Yarn which is of a higher count to outside. So that will give us volume growth in Yarn business itself.

Sumant Kumar: Okay. So the new Yarn plant we have for Bed Linen, you will sell from there also?

Pawan Jain: Yes, that is right. Yarn will be utilized at an around 90% plus in the first quarter itself. By the time we will reach 90% utilization in Bed Linen which will take two years' time, we will sell that extra yarn outside.

Sumant Kumar: So what kind of volume growth you are looking in Yarn for coming year and you assume realization to be flat Y-o-Y or may be some improvement you are expecting?

Pawan Jain: We are expecting some improvement over last year.

Sumant Kumar: Volume and realization both?

Pawan Jain: Both.

Sumant Kumar: So what kind of growth we can expect in Yarn?

Pawan Jain: We are not giving guidance in terms of realizations in Yarn, but definitely it will be better keeping in mind the outlook for the current quarter and going forward. So we have cotton till September this year, so we have visibility for next two quarters and the realization and volume growth will be higher.

Sumant Kumar: So on volume growth, can we expect double-digit in Yarn for FY2017?

Pawan Jain: I cannot comment on that. The new plant capacity is only 40 tonnes a day, so as a tonnage-wise or volume-wise it is a much lesser than our existing capacity as our existing capacities are more of courser counts.

Sumant Kumar: Okay. So anyway there will be a volume growth?

Pawan Jain: Yes, that is right.

Sumant Kumar: It could be double-digit or it could be single-digit but there will be a growth. It could be a minimal growth but there will be growth not like decline in FY2016?

Pawan Jain: Yes, that is right.

Sumant Kumar: Okay. And any price increase?

Pawan Jain: As of now the Yarn prices have strengthened, and the outlook is like whatever prices we have strengthened at, in this quarter-end, that will continue to remain in Q1 Q2.

Sumant Kumar: Okay. And what about paper price increase, have we taken any price increase in this quarter or this month?

Pawan Jain: In this quarter, the paper price has increased

Sumant Kumar: Okay. So how much price increase we have taken in this quarter or this month?

Pawan Jain: It is again towards the end of Q4, i.e. March.

Sumant Kumar: March, how much price increase we have taken?

Pawan Jain: It is around 3%.

Sumant Kumar: 3% is around Rs. 1,500?

Pawan Jain: Yes, near to that in entire quarter.

Sumant Kumar: Okay. And recently, we have not taken any price increase?

Pawan Jain: No, in the current quarter we have not taken any price increase.

Sumant Kumar: Okay. So overall Rs. 1,500 kind of price increase you have taken.

Pawan Jain: Yes.

Sumant Kumar: So what is the current net realization in Paper?

Pawan Jain: I am not having the net realization figure, but on a gross basis it is around Rs. 53 to Rs. 54.

Sumant Kumar: Okay.

Moderator: Thank you. We have next question is from the line of Nihal Jham from Edelweiss. Please go ahead.

Nihal Jham: You mentioned 90% utilization for Yarn in the coming year, so I assume that is excluding our Yarn capacity exclusively for Bed Linen, right?

Pawan Jain: No. This 90% utilization is for the new capacity which is specifically for Bed Linen unit.

Nihal Jham: Okay. But we are expecting 40% utilization in Bed Linen by FY2017. So I am thinking the Yarn utilization would also be similar to Bed Linen, the Yarn which is exclusively meant for Bed Linen?

Pawan Jain: Yes, our exiting Yarn capacities are operating at around 96% utilization right now. The new unit that has been implemented is for 100% captive consumption for Bed Linen unit. In Bed Linen unit, we are expecting 40% to 50% kind of utilization in FY2017 and by around 80% to 90% by FY2018. So until that time, the Yarn will get optimum utilization in the first quarter itself in FY2017 so, if the Yarn is at 90% plus in the entire FY2017 and the Bed Sheet is at around 40% to 50% so whatever extra Yarn we manufacture that we will sell outside.

Nihal Jham: You will sell Yarn outside, from the Bed Linen Yarn facility?

Pawan Jain: It will be ramp-up, yes.

Nihal Jham: Okay, fair enough. The next question is on the Bed Linen additional facility, you mentioned that you are looking at 40% utilization, but just any indication on the margin that you are expecting?

Pawan Jain: The margins will be round 20%, but when it is optimally utilizated, it will be 24%.

Nihal Jham: After optimal utilization, you are saying it will be 24% plus.

Pawan Jain: Yes, which is FY2018.

Nihal Jham: Currently, we have a debt of Rs. 3,400 crore, so what is the break up between TUF and non-TUF?

Pawan Jain: So TUF-based debt is around Rs. 1,800 crore.

Nihal Jham: That's both Madhya Pradesh and Central Government subsidy?

Pawan Jain: Yes. And around the Rs. 600 crore is non-TUF debt and rest of around Rs. 900 crore is short-term working capital.

Nihal Jham: And are we looking at repaying? What is the debt repayment expectation for next year?

Pawan Jain: Next year, we have scheduled repayments of around Rs. 330 crore, but we intent to repay more than Rs. 400 crore in FY2017.

Moderator: Thank you. Next question is from the line of Anant Jain, Individual Investor. Please go ahead.

Anant Jain: Just a few confirmations, although you have answered these questions. So if I am right, the Bed Linen capacity utilization for the current year was zero and we are looking close to 40%-50% utilization next year, is that right?

Pawan Jain: In this quarter, within the last 45 days, utilizations are at 10% to 15%. So, in the next one year we are giving a guidance of 40% to 50% kind of utilization.

Anant Jain: And, what have been the utilization in Terry Towel, is it 60%?

Pawan Jain: 60%, yes.

Anant Jain: And the guidance for next year is that we will do around 20% more than this?

Pawan Jain: Right, it will be 70%+.

Anant Jain: Okay. In Yarn, you mentioned that the current utilization is 96% and 90% next year with the new capacity coming in.

Pawan Jain: 90% is only for the new capacity, for existing capacity so it is again 96%+.

Anant Jain: Okay. The other thing that I have seen is that our growth is struggling in the Terry Towel segment. We have increased looms in FY2015, but this has not resulted in any sales increase, is that right statement?

Pawan Jain: Sales has been impacted by two things; one, on an overall Textile business our captive consumption of Yarn has increased, so whatever incremental revenue we had generated in Towel that has been offset by the reduced volume in terms of captive consumption. Secondly, the Yarn prices itself have declined by around 7% in the entire year if we compare FY2016 and FY2015. So Yarn realizations have declined by 7%, so that has been offset by the incremental revenue in Towel.

Anant Jain: Okay. So there has been some amount of volume growth but because of decline in prices that is not reflected in sales?

Pawan Jain: Yes, that is right. In Terry Towels, the volume growth is about 10% on year-to-year basis.

Anant Jain: What is the management's long-term view on having captive Yarn capacities and integrated units versus you outsource the Yarn manufacturing because we have seen some of your competitors doing that very-very efficiently resulting in somewhere around 40% return on capital.

Pawan Jain: As per our vision and our business model, we are an integrated player where we have facilities right from cotton to Towel or cotton to Bed Linen kind of a product. So we have entire value-chain under one roof.

Anant Jain: But if I were to go back to the history of last ten years, the return on capital have been around 10% on an average of last 10 years with only FY2014 being in good double-digits.

Pawan Jain: In last 10 years, more or less we were in CAPEX mode so, obviously when we implement the new project the return on capital employed is not adequate and initially it is less. So, if we take that asset life of this CAPEX which we had implemented is around 25+ years. So going forward, on an overall basis, the return on capital employed is much higher going forward. When we take it all on this business model, we envisage a period of 25+ years rather than on a short-term basis which sometimes does not give true picture.

Moderator: Thank you, Mr. Jain. We have next question from the line of Nilesh Doshi from Edelweiss. Please go ahead.

Nilesh Doshi: Just one question, is it possible to know the Yarn realization in Q4 and the whole year, average Yarn realization?

Pawan Jain: We can optimistically say that in the next six months it will be remain more or less stable and outlook is positive for the six months. So for the second-half, it depends more on the new cotton season which will come towards September-October this year. So it is difficult to give an outlook for entire one year. But yes, for the next few months it is possible.

Nilesh Doshi: Yes. But can you share the actual realization in the last quarter and the last whole year?

Pawan Jain: We are not giving the realizations in terms of Yarn and Towel separately, but it has started strengthening in Q4, specifically in March.

Nilesh Doshi: Okay. And if I may know what is the average Yarn count we have sold in Q4 and over last year?

Pawan Jain: So in Q4 the average Yarn count is around 28s, which is more or less for the existing capacities, but going forward when this new plant starts giving us production in Q1 of FY2017, the average count will be 36s+ all put together.

Nilesh Doshi: Yes, but from the new facility the average count would be what?

Pawan Jain: It will be 60s, 80s, 100s.

Moderator: Thank you. We have next question from the line of N. Samraj from Dwarka Wealth Managers.

N. Samraj: You have given fairly good idea about what has happened to the financials and operations and while we wait for the inflection point, all I think from the financials is very obvious, last quarter we got to wait for the inflection point which you said that is going to come now. So what we realize is on the net level we have paid about Rs. 5 crore extra on the taxes. Our question is that is it possible that the CFO and the management could think of more efficient tax savings ideas? For example, we require captive power, power is a consumptive expense on the Textile Mills. So is it possible that we can go in for accelerated projects or depreciation projects on wind power something like that, so that we can save on the taxes because the outflow on taxes have really shot this quarter and in fact it would have helped the bottom-line if you realize .

Pawan Jain: We are not thinking of such kind of wind power or such kind of CAPEX as of now. We already have captive power of around 50 MW, out of this 50 MW, close to 40 MW we are getting 80-IA benefits for continuous block of 10 years out of first 15 years. So those facilities of 40 MW we had implemented around 2008-2009 and we had already paid taxes for first five years and the block of 10 years has just started two years back. We still have seven years to eight years remaining in that 80-IA benefit and we are hopeful that we will get a tax incentive from FY2017 onwards also.

N. Samraj: So going forward, in FY2017 we can expect lower taxes percentage wise?

Pawan Jain: Yes, so it will be better, going forward.

N. Samraj: Okay. You had said that the tax rate would be 15% to 17%, so this would encompass or we can expect say may be 13% - 14% or something like that?

Pawan Jain: We had already taken that into account but depending on the PBT levels, we may get more also.

N. Samraj: So we can expect a little lower level also.

Pawan Jain: Yes.

N. Samraj: Okay. Now coming to your working capital, the interest foregone this particular quarter as you also highlighted, is a little bit on the higher side. Now, is it possible that the CFO and the management have considered of the debt swap because now we have got negative rates running in Japan, Europe and America is also almost over there now, so this particular outgo seems to be rarely impacting the bottom-line. So is it possible that we can think of debt swap?

Pawan Jain: We have a total gross debt of around Rs. 3,368 crore. Out of that, Rs. 1,800 crore is under TUF. So we are getting benefits, thus it is not possible to swap that because it is already at a very low-end kind of interest rates and rest about Rs. 800 to Rs. 900 crore which we are using is short-term that is again we are getting the interest equalization scheme benefit from the Government. And rest around Rs. 600 crore that, we on a continuous basis are considering on how we can able to reduce the cost of debt.

N. Samraj: So going forward, in FY2017 and FY2018, how much in percentage-wise we expect to bring it down?

Pawan Jain: On an average, we are repaying about Rs. 100 crore a quarter long-term debt, so our intension is to repay the scheduled repayments of our TUF-based loans and whatever incremental cash flows we are having we intend to prepay the high cost debt.

N. Samraj: Okay. All the discussions which have taken place as to what is going to be the margins, what is going to be the sales volumes, etc., it is mainly on the qualitative side and when you see some research reports from different houses, you know there is a huge difference on the projected sales for FY2017 specially on Bed Linen and Towels. So, I am sure you must have had some business plan going forward on the medium-term and long-term basis. So is it possible you could just I mean we are not going to hold you against it a few crore here and there if you could split up the Textiles, what could be the basis we can expect sales revenues for Yarn, Bed Linen and Terry Towel.

Pawan Jain: For Paper, it is more or less flat, for Textile business we are giving a guidance of 15% to 20% incremental growth coming in FY2017 and FY2018 also.

N. Samraj: So in crore how much would that be, if you could please put that forward for Terry Towel?

Pawan Jain: Right now the Textile business is around Rs. 3,000 crore, so we are expecting about Rs. 500 crore to Rs. 600 crore increase in the Textile business in FY2017.

N. Samraj: If you just split it up now that the Bed Linen is already up and running and we had some utilization, how much could we expect in sales projections for Bed Linen in crore for FY2017?

Pawan Jain: We do not give product-wise guidance, all we can say that it will be Rs. 600 crore plus of incremental sales in Textiles segment.

N. Samraj: Okay, so we can expect sales of Rs. 600 crore from the FY2017 from Bed Linen?

Pawan Jain: Bed Linen and Terry Towels put together.

N. Samraj: So, Bed Linen and Terry Towels taking together we can expect Rs. 600 crore?

Pawan Jain: Rs. 600 crore plus.

N. Samraj: So you are taking about this as the cumulative figure for FY2017?

Pawan Jain: Yes. That would be the incremental sales in FY2017

N. Samraj: Okay. And Yarn?

Pawan Jain: We are talking of this only, Terry Towel and Bed Linen.

N. Samraj: Yes, I understand, so for Yarn how much would that be?

Pawan Jain: Whatever incremental volumes that we generate in Yarn will be offset by increase in captive consumption of Yarn for our Towel and Bed Linen units. So on an overall basis it will be flat.

N. Samraj: With respect to marketing, the recent reports and the quarterly results that are coming out from the retailers like Kohl, Wal-Mart, JC Penney, etc. they have been sort of being cannibalized by the online retailers like the Amazon and eBay. So is it possible going ahead that you would be able to directly market and communicate with these two giants on the online front?

Pawan Jain: We are already doing that. We are already supplying through our online channels like Amazon and also all over India. These kind of markets are growing at a 45% to 50%+ kind of growth rate as the base is very small, so going forward we intend to grow at a faster pace.

N. Samraj: Okay. I was specifically referring to Amazon U.S. and eBay U.S.

Pawan Jain: We are already supplying to them.

N. Samraj: You are in touch with that.

Pawan Jain: Yes. Our products are available there, on Amazon U.S.

N. Samraj: Okay. And overall the macroeconomics in terms of GDP growth of United States tittering towards 0.5% now and the wage growth also is a question mark over there, so how is the business environment shaping up now in USA?

Pawan Jain: As far as Home Textiles market is concerned, it is doing good and giving us visibility and outlook which is positive. In terms of the visibility and order book we have, we expect positive traction in Home Textiles going forward.

N. Samraj: Okay. And are we catching up into China, how is that?

Pawan Jain: China more or less has an edge in terms of manmade fiber, so wherever cotton plays a role, India is in a better position as compared to China.

Moderator: Thank you. Next question is from the line of Abhilasha Satale from First Global.

Abhilasha Satale: This is with respect to the domestic business, you have mentioned that you have presence across 260 MBOs and domestic business has increased by 50% during the year. So how much it is contributing right now to our top-line?

Pawan Jain: On an overall basis, it is near about three digits (in Rs. crore), so it has increased by around 50% as compared to last year.

Abhilasha Satale: Okay. What kind of margins would you be generating here, is it better than our current business?

Pawan Jain: As of now, since we are spending on building a brand in the domestic market, the margins are not commensurate with the margin which we are getting in the export markets. We are building a brand in the domestic market, we are reaching out to the customers and enhancing our awareness in terms of availability of quality products in India. So we are hopeful that going forward say two years or three years down the line we will start generating better margins as compared to international business. So this market is as of now at a nascent stage in terms of building brands and spreading awareness in the domestic market. So going forward it will give better margins.

Abhilasha Satale: Fine. What is our advertising and promotion spend in the domestic business?

Pawan Jain: It is around a Rs. 10 crore a year.

Abhilasha Satale: Okay. And you do not expect to increase it?

Pawan Jain: As of now, we have earmarked this amount for three years' time and we are just one year into it. So going forward we will not enhance this amount but we will keep it within this target only.

Abhilasha Satale: Okay, inventory has gone up sharply during the year. It has reached around 175 days. So what is the reason for this?

Gunjan Shroff: It is largely because of cotton procurement, as this is a peak level cotton stocking season which we do at this point in time, so this is largely due to cotton procurement.

Abhilasha Satale: Yes, I understand, but I wanted to know that is it because of volume increase or even the procurement price has gone up sharply?

Gunjan Shroff: No, the procurement price has not gone up sharply. It has to do with the new unit of Yarn also which we have recently commissioned, so since we are stocking upto September-October, there is an increase in the volumes of cotton stocking.

Abhilasha Satale: Okay, you said that Terry Towel realization has gone down by 6% year-on-year, so does that include the currency benefit also because there we have got around 3% - 3.5% year-on-year because of currency depreciation. So all in all have prices gone down by 9%-10% in the Terry Towel division?

Pawan Jain: The cotton prices have dropped by 9% to 10%. So you have to pass on the raw material cost benefit to customers. So that has been offset by the currency gain and other production efficiencies.

Abhilasha Satale: Okay. So during this year then how do you see realizations panning out because if volumes are coming in and if our product mix is changing towards lower realization sort of thing then top-line growth like how do you see that panning now?

Pawan Jain: It is not a product mix, it is more of the Towel realization that has been adjusted to the current prices of raw material which was higher in FY2015. So going forward we do not see any further decline in realizations in FY2017, so more or less outlook is better placed.

Moderator: Thank you. Next question is from the line of Anant Jain, Individual Investor. Please go ahead.

Anant Jain: I was more interested in return on capital and asset turns, so as you had explained earlier that we had heavy CAPEX in the last ten years, asset turns were somewhere between 1 - 1.5x, so as depreciation kicks in, what do we expect the average asset turns to be like if you have to take a view of say 15 – 20 years, how do you see that? And how do you see ROCE?

Pawan Jain: The asset turn as of now is around 1x, so in Textiles it will be around 1.6x which will be at an optimum level. So going forward it will be improved as we build up the order book and start enhancing the volume growth.

Anant Jain: And ROCE, how do you see the return on capital may be year or two years down the line?

Pawan Jain: It will reach double-digit in the next year itself and going forward it will be better, on year-on-year basis.

Anant Jain: Okay. In terms of Bed Linen specifically, we have set-up the spindle unit for Bed Linen and where we are making thread counts from 40 to 100, is that right?

Pawan Jain: 60 to 100, yes.

Anant Jain: Looking at the current order book, what would be the average thread count for our Bed Sheet?

Pawan Jain: If you see the average count is around 27-28 and going forward when we start utilizing this new capacity, the average count will be around 36-37.

Anant Jain: No, I am asking about the thread count for the Bed Sheet project. The current plant that we have set up for Bed Linen has capacity of making Bed Sheets from 200 to 1,100 thread counts.

Pawan Jain: Yes, 200 to 1,200 thread counts.

Anant Jain: So what I am asking is that looking at current orders, what would be the average thread count for Bed Sheet production?

Pawan Jain: We are not disclosing that, because it is a proprietary figure. But it will be 60s+ which is for the Yarn production. Threat count for our bed sheet business we will not be able to disclose at this moment.

Anant Jain: Okay, the idea is that as we go up higher in the chain like 800 to 1,000 thread counts, the margins go up significantly.

Pawan Jain: It is assumed that higher the thread count, more is the value addition, but as of now the current trends in the fashion industry and trends in the international market, it is possible to give a feel-good and better products even a lower thread counts. So, with these new facilities, the focus is to earn better margins in terms of the products so initially because these are new facilities you are definitely into at an entry level thread counts level which is more or less ranging between into 200 to 400 to 500 kind of a range. So when these products achieve maturity, you will get into higher thread counts.

Anant Jain: Okay, the other question is regarding equity dilution. Because of various reasons which could be merger and which could also be the options or warrants which were allotted, equity has constantly increased from around Rs. 220 crore in FY2010 to around Rs. 550 crore this year. So how do you see it?

Pawan Jain: As of now, we do not have any outstanding instruments for dilution accept few lakhs of outstanding ESOP options which we had given to our employees. So going forward we do not have any plan for equity dilution.

Anant Jain: Okay, in the last year Annual Report you said we will have a dividend policy of say 6% dividend every year. This year we have already given 9% dividend, right?

Pawan Jain: Right.

Anant Jain: So, my question here is to mainly understand why are we giving out dividends when we are still under debt. I mean we are paying taxes at both places, part of our profits and in dividend distribution tax, so would it not be wise to withhold dividend?

Pawan Jain: Yes, you are right, but from investor's point of view, till last few years we were continuously into CAPEX mode and the investors have not get any return. So the investor community needs some return as they invest into the equity capital and keeping in view free cash flows that we are anticipating in FY2017 and FY2018, it is better to give dividends. More or less the debt which are we are having is under TUF or under interest equalization. So it is not feasible to repay those kind of debts so, it is better to keep that debt on the balance sheet and we will try to repay the debt even after paying the dividend, so whatever free cash flows we intent to generate will be used to repay high-cost debt which is much lesser when compared to the overall debt.

Anant Jain: On Bed Linen front, what would be the average price per meter?

Pawan Jain: No, we would not be able to disclose that figure.

Moderator: Thank you. Next question is from the line of MadhavBarda from Fidelity. Please go ahead.

Madhav Barda: Just one question on our realization for Terry Towels, it has come down and it is a pass through of the cotton price decline but when you compare it to other players in India, their realizations I believe have actually gone up. So could you just explain why that is happening that our realizations are going down, but the competitors are actually reporting better realizations?

Pawan Jain: I would not be able to comment on competition but yes, because they are into more matured level of markets as compares to us. We have just opened our Europe office in the last quarter and they are into that market for say last 4 to 6 years, so their customer reach is at a much higher level, but we are definitely getting into that product-mix and market, so going forward we will be able to compete on that also.

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

Management: Thank you everyone for joining us on the call. Hope we were able to answer all your questions Should you need any further clarifications or would like to know more about the company, please feel free to contact us or CDR India. Thank you.

Moderator: Thank you very much members of the management. Ladies and gentlemen, on behalf of Trident Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.

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