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"KPR Mill Limited Q2 FY18 Post Results Conference Call"

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KPR Mill Limited

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CHORUS CALL

MANAGEMENT:	**MR. P. NATARAJ - MANAGING DIRECTOR, KPR MILL LIMITED** **MR. PL MURUGAPPAN - CFO, KPR MILL LIMITED** **MR. P. KANDASWAMY - COMPANY SECRETARY, KPR MILL LIMITED**
MODERATOR:	**MS. PRERNA JHUNJHUNWALA – B&K SECURITIES**

Moderator: Ladies and gentlemen, good day and welcome to the KPR Mill Limited Q2 FY18 Post Results Conference Call, hosted by Batlivala&Karani Securities India Pvt. Ltd. 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 the operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Prerna Jhunjhunwala from Batlivala&Karani Securities India Pvt. Ltd. Thank you and over to you, ma'am.

Prerna Jhunjhunwala: Thank you, Lizzan. Good evening, everyone. On behalf of Batlivala&Karani Securities, I would like you to welcome you all for Q2 FY18 Results Conference Call of KPR Mill Limited. From the company we have with us the senior management including Mr. P. Nataraj, who is the Managing Director of the company, Mr. Murugappan, who is the CFO and Mr. Kandaswamy, who is the Company Secretary of the company. I would now like to hand over the call to the management of the company for the comments. Thank you and over to you, sir.

P. Nataraj: Very good evening and welcome you all for the KPR Mill Second Quarter Earnings Call. I am Nataraj, along with me Mr. Murugappan – Chief Financial Officer and Mr. Kandaswamy – Company Secretary are also present.

I am glad to inform you that the company could achieve a better performance even during the transitional period of GST implementation. Our expansion plans have been completed well in time. New high-tech processing unit has commenced its operation. New sophisticated printing unit with advanced technology to achieve the global standards is also in operation. Comfortable order position, abundant availability of cotton during this season encouraging policies of the government is some of the favorable factors empowering our prospects. India has a strong population base with the largest young population in the world. Coupled with a growing economy, the increasing women force enhances the spending power.

Due to these factors the buying habits of Indian customers have changed over the years. The brand awareness and penetration of brands to semi urban cities have largely contributed to a swift in buying pattern from need based to fashion oriented leading to increased domestic demand for textiles and apparel products. The export market is also poised for significant growth owing to structural changes in the country and international events shaping the global trade. To tap the opportunities KPR which is empowered with a large base infrastructure including human force is vigorously analyzing the various options available to choose the appropriate potential segment. Of course, presently the nation is passing through the introduction of the GST regime. Once the trend gets stabilized the industry is expected to enter its next growth level. Now the floor is open for questions, thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. We will take the first question from the line of AbhijeetDey from BNP Paribas Mutual Fund. Please go ahead.

AbhijeetDey: Usual question first, if you can break up the sales volume between yarn and fabric sir for the quarter?

PL Murugappan: Yarn is 18,541 tonnes, fabric 1,192 tonnes.

AbhijeetDey: And sir in the revenue also if you can do that?

PL Murugappan: Yes, yarn 379 crores, fabric 27 crores.

AbhijeetDey: Sir, any reason why the fabric sales are so low?

PL Murugappan: Sir, fabric is market driven. Depending upon the market requirement we will sell either yarn or fabric. Currently the people prefer to buy yarn because earlier we have a nil tax for fabric, so people used to buy lot of fabric. Now the tax rate is common for both so people buying yarn more.

AbhijeetDey: What was the difference earlier sir, between fabric and yarn?

PL Murugappan: Yarn is 5% tax, fabric is Zero tax.

AbhijeetDey: And sir secondly, I see that your other income has come down as it to do with the GST regime or something else?

PL Murugappan: The introduction of GST resulted in this VAT subsidy for our new plant. As it is not very clear we have accrued only to the extent of the state GST. Central GST, we are waiting for the clarification from the government.

AbhijeetDey: So, which is 42%?

PL Murugappan: Yes, that is yet to be announced. It is only on discussion stage.

AbhijeetDey: So that is the reason why other income has come down.

PL Murugappan: Yes, it's a little down.

AbhijeetDey: Lastly sir, what is the net debt sir in the books? Working capital included what is the net debt?

PL Murugappan: It is about 645 crores.

AbhijeetDey: And what is the repayment plans sir for the rest of this fiscal?

PL Murugappan: Sir, almost we have repaid all the high cost debts. Debts in term loans are under TUF. We are reducing the working capital side now. The regular repayment would be somewhere around 60 crores during this period.

Moderator: Thank you. We take the next question from the line of VikasMantri from East India Securities. Please go ahead.

VikasMantri: Sir, actually few questions that I had, so what is the reason for us reporting no other operating income, is it clubbed in the net sales?

PL Murugappan: Yes, it is change in the format by the SEBI.

VikasMantri: So as for the new format we will not be reporting other operating income it will be the part of the revenue.

PL Murugappan: Yes, part of the revenue.

VikasMantri: And sir what has been the average cotton usage during the quarter?

PL Murugappan: Average cost it is about Rs. 125.

VikasMantri: No, I am not talking of the cost. I am talking about the tonnes of usage, how many tonnes of cotton have been consumed during the quarter?

PL Murugappan: 26,341 tonnes.

VikasMantri: And sir, how much do we have the inventory of cotton for the next 3 months have we covered or is the sufficient inventory?

PL Murugappan: We have about 15 days inventory. As the new season has started the arrivals have begun.

VikasMantri: And sir, any other specific CAPEX plan that we have for FY18 and 19?

P. Nataraj: Yes, as I mentioned in the initial note, our existing projects printing & processing have just completed. Because of the GST overall industry is having some issues to settle down. Previously the fabric has no tax and it's also brought under the tax and the export and import, I mean domestic market both have different impact on the taxation. So that we are looking for settle down the GST issue, so streamline, once it is streamline may be in a couple of months or something like, so after that which segment we have to plan. So presently just we are looking into consolidating the existing recently completed project.

VikasMantri: Sir and one more questions that I had was, so with respect to the sugar business, so will this quarterly fluctuation continue to remain, or do we have some annual target that this much should be the revenue can contribution from sugar business?

PL Murugappan: Sugar being an agricultural commodity the season starts sometime in November. It will be for about 4 to 5 months. So, we are expecting a good season this year because last year is a drought, this year is expected to be good because the rain is good in north Karnataka. We are expecting a good crushing this year.

VikasMantri: So sir, can we safely assume similar sort of number which we had last reported last year or is it …

PL Murugappan: It will be better than the last year.

VikasMantri: Sir, any guidance regarding revenue and profitability that we are giving at this point of time?

PL Murugappan: Very difficult to give a guide lines now sir

Moderator: Thank you. We will take the next question from the line of PriteshCheddha from Lucky Investment Managers. Please go ahead.

PriteshCheddha: Sir, I wanted to know the garment volume and sales value in quarter 2 and H1?

PL Murugappan: Garment second quarter sales is 17.6 million garments, value is 235 crores.

PriteshCheddha: 235 crores and 17.5 million pieces.

PL Murugappan: Yes correct.

PriteshCheddha: What is the EBITDA margin on this?

PL Murugappan: 22%.

PriteshCheddha: And what is the capacity utilization?

PL Murugappan: It is about 70%.

PriteshCheddha: This is for quarter 2 or this is for H1?

PL Murugappan: This is for quarter 2.

PriteshCheddha: If you could give it for H1?

PL Murugappan: H1, turnover is 488 crores, again margin is about 22%.

PriteshCheddha: And volume?

PL Murugappan: Volume is 37.5 million.

PriteshCheddha: And my second question is on the yarn spreads if you could give how the spreads have moved in the last 6 months and what it is now?

PL Murugappan: Yarn spread was little fluctuating during this period and especially in the last quarter it is little less than the first quarter. It is stabilizing now, since the new season is starting.

PriteshCheddha: Can you give some ballpark numbers on the spreads?

PL Murugappan: Yarn has various counts are there. It is very difficult to give a ballpark number on them.

PriteshCheddha: If you could give any particular running item realization number on the cotton price?

MD: If you say that 30s combed yarn it is around Rs. 200 and the cotton price is around Rs. 127 per kg.

PriteshCheddha: This is currently?

MD: Yes, currently.

PriteshCheddha: And what it was let's say 3 months back and what it was at the beginning of the year if you could give?

MD: 3 months back around Rs. 10 more in cotton price and Rs. 15 higher in yarn price.

PriteshCheddha: So, 215 and 137.

MD: Yes.

PriteshCheddha: So, the spread has remained largely intact.

MD: Yes, you are right.

PriteshCheddha: 215 and 137

MD: Yes.

PriteshCheddha: And at the beginning of the year will it be lesser than this or will be higher than these 3 months.

MD: Almost, if you see the last one year except the last 3 months there is no change. This year may be the record crop not only in India even worldwide also India is the largest in the world this year around 400 lakh bales expected. Because of this news spreads in the market and already before the cotton season price have started falling down. So, expected that the cotton price may come down further.

PriteshCheddha: And you were saying that in last one year the spreads are same?

MD: Yes, almost till August 2017, it is the same, after that it was coming down.

PriteshCheddha: After that it was shrinking.

MD: Yes.

PriteshCheddha: So, when I analyze your H1 numbers you would have grown in garments and the margins are steady there, so slightly there would be some business area whether would be some shrinkage in absolute EBITDA number but that is not visible in your P&L.

PL Murugappan: Sir, garment business margins are more or less steady. Cotton being agricultural commodity generally it will be little volatile during the season change.

PL Murugappan: Now in the last 3 months if you see both cotton price and yarn price both have come down proportionality.

PriteshCheddha: Okay, I will take it offline sir.

Moderator: Thank you. The next question is from the line of Sunil Kothari from Unique Investments. Please go ahead.

Sunil Kothari: Sir we already, I think produce roughly 22 million pieces in this quarter 2. So we are running at a capacity of I mean for sharp 39 point some millions of pieces this second quarter 22 plus something, 22 around. So, we are reaching almost higher capacity utilization almost 80-85 plus. So are we not thinking about enhancing our capacity or what is our strategy and planning for garments?

MD: No, if you see this new factory, still we have to reach full capacity. Once the new factory reaches the full capacity then only the garment processing also will come into the full capacity of say 80%-85% level. So, that is why we are pushing on those aspects and in the meantime as already told the GST impact. We are into both export as well as in the domestic market, so, we have to wait and see how it will impact on the domestic market.

Sunil Kothari: Sir, we have produced roughly 39 million-40 million in first half, so current year target of garment production should be what?

PL Murugappan: Somewhere around 80 million garments.

Sunil Kothari: And sir, we have improved our realization per piece. First quarter realization per piece was 127, second quarter comes 133. So, this is what because of some this better product or may be this new process house helped us. What is the reason of increasing realization and what is the trend onwards?

MD: Yes, this is because of 2 things. One is we are pushing our customers with niche product and second it depends on the season also. Where the customers place order for winter garments naturally the cost will be a little higher compared to the garments of summer. So, when we produce more summer garments realization will be little lower and as the mix is higher on winter side, the per piece realization will be higher. If take full year average only we will get the exact position.

Sunil Kothari: So sir, with this new printing machine, new process house with all this sophistication can we expect better realization year-on-year for next one or two year?

MD: Yes, this is because besides dyeing and the bleaching of the fabric printing is value-added processing which will increase the realization in the long run.

Sunil Kothari: And sir my last question is, in the garment segment only garment manufacturing segment how many people work, total employee has in garment segment?

PL Murugappan: It is about 10,000 people working in the garments segment.

Moderator: Thank you. We will move on to the next that is from the line of Ankit Go from Systematix Shares & Stocks. Please go ahead.

Ankit Gor: Sir, if you can highlight some, what is current duty drawback structure post this and ROSL what is the clarity on ROSL benefits was3% now what is that and any deliberants there from the government side that will help us?

PL Murugappan: Sir, as it stands today duty drawback is 2% for garments, 1% is ROSL.

Ankit Gor: Which is fixed right? Now cannot …

PL Murugappan: And we are eligible for the input credit refund. Approximately it will be about 5%.

Ankit Gor: Sir, just one figure there, how much duty drawback incentives we are received in FY17?

PL Murugappan: It was around 7.5%.

Ankit Gor: 7.5% of total garment export, right?

PL Murugappan: Yes.

Ankit Gor: And sir, second question with regards to our billing. What is the breakup between USD billing, Euro billing and Pound billing there?

PL Murugappan: Sir, USD will be 75% and Pound will be 20%, Euro will be 5%.

Ankit Gor: And sir any pressure coming in obviously that is kind of recurring process from all these vendors but any meaningful pressure coming from all these global retail giants in terms of pricing or anything else, sir?

MD: No, Generally, it is agreed between buyer and seller. In the business, negotiation will be there. Because of GST, duty drawback changes India is looking towards the government to give some clear picture. That is the situation and we do not find presently any specific pressure from the customer side.

Ankit Gor: And my point was sir, post reduction in duty drawbacks probably Bangladeshis or in Vietnam people will be more cost lucrative to all these guys and then probably the overall industry will get hurt to some extent. So, what is your sense on this sir?

MD: No. Actually the previous duty drawback was continuing and only this month onwards, the government reduced the duty drawback, GST council also has confirmed orally, that they will retain this duty drawback till December or even till March 2018. But so far no notification has come. That is why the Industry is confused. Whether they maintain the same duty drawback, or they will reduce. So, these things are going on. Because of that some of the exporters say that this will continue, and some people say that we have to wait till notification from the government. Actually, these things are only the big talk in the industry and because of that here industry is upbeat and confident that they can continue to retain the same business. India is so large and having so much of facilities compared to any other country except China. So, suddenly overnight the business cannot be shifted to either Bangladesh or Vietnam and I think we have to wait couple of months. Even there is a news that government is going to reduce draw back here in the beginning of 2018. So, by the time there may be another package for the export community. So, these are all on the cards. That is why this is a very critical time, we have to wait and see what the government is coming out with the proposal.

Ankit Gor: And, my last question is with regard to sewing machines. How many sewing machines we have at this moment, sir and how much we added in FY17 and this first half?

MD: We have around 6,500 machines.

Ankit Gor: And how much we added in one this first in this new factories 36 million pieces factory?

PL Murugappan: In that 2,500.

Moderator: Thank you. The next question is from the line of Vishal Gajwani from Birla Sunlife Insurance. Please go ahead.

Vishal Gajwani: Sir, one question was regarding garment margin you mentioned it is 22%, so I suspect the peak margin that we saw here was 28%. So, if you can just explain going forward how the margin trajectory in garments will look like?

PL Murugappan: Margins for garments is expected to go up because we are adding more facilities in value added garment segment like full body printing, special printing and embroidery and other things.

Vishal Gajwani: Can go up to the previous highs of 28 odd?

PL Murugappan: That 28% is an exceptional year. We are working on expanding the margin, it will go up but we do not expect that it will rise to 28%.

Vishal Gajwani: Sir also wanted to get this clarity you mentioned duty drawback is 2% ROSL 1%, goodscredit 5%, so all put together 8%. What was it before the GST regime?

PL Murugappan: It is about 11%. 7.5% is the drawback and 3.5% is the ROSL.

Vishal Gajwani: So, there is an impact of 3% which points that?

PL Murugappan: Yes, as it stands today. But the government has given it as standby today.

Vishal Gajwani: So, I understand you are in discussion with the government for promoting employment, etc. in this space. So, as an industry what kind of representation we have made?

PL Murugappan: We have requested for the benefits to the extent whatever they have given before GST regime. We are waiting for their announcements.

Vishal Gajwani: Also sir moving on in terms of garment production you mentioned you made 80 million pieces this year, so …

PL Murugappan: 80 million plus we are expecting this year.

Vishal Gajwani: So, hopefully next year you will be close to your peak capacity, so any expansion plans post this?

MD: As, I have told already because of the GST and the government policies, we have represented to the government for certain measures as the textile is the largest employment provider. Even one year before the government has given some special package for the apparel industry and now because of the GST the drawback and all this thing they are little bit reduced and so we have represented to the government. We are waiting in what area they are going to give say, either processing or apparel or any other area. How they will come out, what is the package; it is investment oriented or labor oriented. So, with all these things we have to decide. Once the clarity arrived then we can think. It will take at least 2-3 months, and during the time we are pushing our new capacity to reach its optimum level.

Vishal Gajwani: Sir, hypothetically if there are no more benefits from the government even then it might make sense for you to expand garment capacity considering the return on investment that you make?

MD: Yes, we are also thinking of manufacturing the branded garments. So, that is also on the cards. How we will go we are actually internal by the management is discussing. So, Branded garments will be another very lucrative area. The Indian market in the last couple of years is growing faster. Even the global brands are looking into India. So, we are having integrated facility with all these capacities, we can look into the branded garments these are all under discussion, sir.

Vishal Gajwani: So, when you mentioned about branded garments this is for knitted branded garments for the Indian market, is it?

PL Murugappan: Yes.

Moderator: Thank you. The next question is from the line of Manasvi Shah from ICICI Prudential Life Insurance. Please go ahead.

Manasvi Shah: Sir, just wanted to clarify is the new structure of duty drawback were to retain, would you get any benefits from your yarn business because you would get an additional ITC?

PL Murugappan: In yarn export market we get about to 1.5% to 2.5% extra benefit. Earlier it is about 3% drawback now it is 1.2% drawback with the full ITC.

Manasvi Shah: Yes, so that 3% impact which is there would actually be lower than that should come to at around 2%?

PL Murugappan: Company as a whole it is lower than that.

Manasvi Shah: So, for the company as a whole broad terms how much would be the impact?

PL Murugappan: In broader terms in GST the company is in positive impact. We are estimating somewhere around 10 crores to 15 crores.

Manasvi Shah: Of positive impact?

PL Murugappan: Positive impact.

Manasvi Shah: After the garmenting margin cut as well?

PL Murugappan: Yes.

Moderator: Thank you. The next question is from the line of Shradha Agrawal from Asian Markets Securities. Please go ahead.

Shradha Agrawal: Sir, couple of questions. First is what the margin on the yarn and fabric business was for the quarter?

PL Murugappan: Yarn and fabric is 18.5%.

Shradha Agrawal: And that has come off from its peak of close to 21%-22%. Is it because of freight coming off or is it because of some other reasons, sir?

PL Murugappan: It is a seasonal change time now, madam. It is little volatile during this time.

Shradha Agrawal: So, I mean given what we are seeing in environment currently do we expect that is trend back to its original levels of 21%-22% by next quarter?

PL Murugappan: Yarn business generally somewhere around 19% to 20%.

Shradha Agrawal: Then secondly on the sugar business how much did we liquidate in this quarter?

PL Murugappan: We have liquidated about 18,000 tonnes.

Shradha Agrawal: Sir and what is the inventory we would be sitting on as of now?

PL Murugappan: It is about 1,000 tonnes.

Shradha Agrawal: And that liquidation would have happened at an average realization of close to Rs. 35-Rs. 36 per KG.

PL Murugappan: Yes.

Shradha Agrawal: And sir one thing, one clarification on the duty drawback you said ROSL was 3% earlier but to us the incremental ROSL benefits that would approve us only 1.5% because we were getting the other benefits. So, some 7.5 plus 1.5, 9% coming down to 8%.So, the real impact is only 1% on exports on duty drawback on garments coming off?

PL Murugappan: Earlier we are eligible for state tax refund. If we go for ROSL it is not available. It is about 2% we used to get. Now the state tax and the central tax concept is not there, it is theist which comes around 12%. So, earlier we are getting about 11% now we are getting about 8%.

Shradha Agrawal: No, sir I was just coming to the question that ROSL was 3% but we were actually getting only 1.5% impact, positive impact. So, from 9% it has come down to only 8%, so incrementally we are down?

PL Murugappan: Yes, you are right, 1%.

Shradha Agrawal: And sir, in terms of client addition on the garment business how has been the traction in client addition in this 1H?

PL Murugappan: In the first half we have added two clients from US, one client from Holland and one client from Poland.

Shradha Agrawal: And sir what is the status of Uniqlo as to what is the capacity commitment to Uniqlo?

PL Murugappan: We have not committed any capacity. We are receiving large orders from them. We are executing it.

Shradha Agrawal: And sir last question, what is the utilization in the processing plant currently?

PL Murugappan: The new processing plant is about 50%.

Shradha Agrawal: Sir, are we doing more of job work in these plants rather than our own processing?

PL Murugappan: Own is more.

Moderator: Thank you. The next question is from the line of KashyapJhaveri, an individual investor. Please go ahead.

KashyapJhaveri: If you can give the value and volume number for yarn, fabric and garment for June quarter as well as September quarter last year? I heard on the call, numbers about September 2017 quarter but for June 17 and September 2016 quarter also can you give both value and volume?

PL Murugappan: You want the first quarter details?

KashyapJhaveri: Yes, first quarter this year and second quarter last year.

PL Murugappan: Yes, this year first quarter, yarn 9,575 tonnes, fabric 6,398 tonnes and for the garments it is 19.9 million garments.

KashyapJhaveri: And in value terms?

PL Murugappan: Value terms 253 crores.

KashyapJhaveri: All three?

PL Murugappan: You want yarn 212 crores, fabric 146 crores, garments 253 crores.

KashyapJhaveri: This is for Q1 this year?

PL Murugappan: This year.

KashyapJhaveri: And Q2 last year comparable quarter?

PL Murugappan: Yarn?

KashyapJhaveri: Yes.

PL Murugappan: 14,241, fabric4,412 and garments 12.6 million.

KashyapJhaveri: And in value terms?

PL Murugappan: In value terms, 308 crores yarn and 95 crores fabric, garments 179 crores.

KashyapJhaveri: That is the only question from my side and just a humble request. We used to give this breakup earlier in the presentation itself, if you can regularly put up the presentation as well as this breakup it will be really helpful.

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

Arjun Sengar: Sir, the new duty drawback and ROSL you were talking about these will be applicable to us from when?

PL Murugappan: From 1st of October.

Arjun Sengar: So, it will be visible in the Q3 realization?

PL Murugappan: Q3 itself it will be visible.

Arjun Sengar: And secondly sir you said that the effective duty drawback has gone down from 11% to 3% correct, if we include the credits?

PL Murugappan: Yes.

Arjun Sengar: But the credit is 5% of the raw material cost, right? Not of the top line?

PL Murugappan: It is on the top line only. It generally works out to 5% of the sale value.

Arjun Sengar: So, effectively it is gone down from 11.5% to 8% that is how we should read it?

PL Murugappan: You are right. But earlier also when we availedROSL we lose about 1.5% to 2% input credit that is not eligible for refund, so effectively it is about 1%.

Arjun Sengar: And earlier in the call you are talking about some CAPEX see which is at 50% which capacity is that, utilization?

PL Murugappan: This is our new processing plant.

Arjun Sengar: But the rest of the capacities are now fully ramped up?

PL Murugappan: More or less, except the new garment facility we commenced last year it has some portion to be utilized.

Arjun Sengar: And the garment margin that you were said is 22% this quarter what was it same quarter last year?

PL Murugappan: It is about 24%.

Arjun Sengar: And so, can you give us the margin for yarn and fabric separately in this particular quarter, if possible?

PL Murugappan: Generally, we are reporting yarn and fabric together.

Arjun Sengar: Next is sir, this October, November, and December if we look at the spreads between yarn and cotton had they improved because cotton prices have gone down or have yarn prices gone down in similar manner?

PL Murugappan: Yes, it expected to improve.

Arjun Sengar: Spreads are likely to improve in this current quarter?

PL Murugappan: Yes.

Moderator: Thank you. The next question is from the line of Monica Sinha from Share Giants. Please go ahead.

Monica Sinha: I want to know the segment wise CAPEX for H1 FY18?

PL Murugappan: It is only a regular maintenance CAPEX we are not getting into any new capacity during this period.

Monica Sinha: No new CAPEX?

PL Murugappan: No new CAPEX.

Monica Sinha: And FY17 CAPEX if I can know?

PL Murugappan: FY17 we have setup a new processing plant with the capital outlay of about 120 crores and we have setup a new printing capacity with outlay of about 20 crores.

Monica Sinha: 120 crores for sugar?

PL Murugappan: No, 120 crores for new processing facility, 20 crores for printing facility.

Monica Sinha: And any guidance on CAPEX further for FY18?

PL Murugappan: As we explained earlier we are just waiting for the GST implementation to settle and we want to utilize the existing capacity fully because some of the capacities were recently commenced we want to utilize it fully. Then within 2months-3 months' time we will decide the future expansion plans.

Monica Sinha: So, last year FY17 total CAPEX was 140 crores this was total in textile division, right? If I understood it right?

PL Murugappan: Correct.

Monica Sinha: And in sugar there was no major CAPEX?

PL Murugappan: We are not expanding sugar business.

Monica Sinha: And sir one more thing just wanted to get a sense on, are you planning to enter retail garmenting business also?

MD: Actually madam, it is like we are discussing for branding garments for domestic market, not yet decided. It is on discussion stage.

Moderator: Thank you. The next question is from the line of SahilDoshi from Aditya Birla. Please go ahead.

SahilDoshi: Sir, just wanted to understand more on the garmenting sides we have seen our average realization not move up, almost it is trending down, and I understand it is because of the new facility which we are trying to ramp up. But if we exclude that facility the earlier capacity sir are we seeing some value addition catching up there?

PL Murugappan: Yes, slowly it is catching up because recently we have introduced this printing division where we are expecting more value-additions and the garments will result in a higher realization.

SahilDoshi: So, if you have to separate both on those facilities and sir how do you see our ASPs move say broader timeline in next 2 years, 3 years?

PL Murugappan: Yes, may be 1 to 2 years' time we will see that benefits.

SahilDoshi: would print and the other processing, etc., add 15%-20% increase in our value addition on a ballpark basis, sir?

PL Murugappan: Not fully, the portion of the garments will as you said it will be 15% to 20% realization will improve.

SahilDoshi: Sir, second question is slightly broader in the sense 5 years back we took a decision of stop investing in yarn and fabric,etc. and go towards garmenting. If we have to really think through next 5 years hence how do we really allocate our capital further, sir? I understand GST and duty drawback is the question mark at the point but if you have to think 5 years hence how do you really allocate further cash which you are generating?

P. Nataraj: Yes, now we have spinning capacity around 360,000 spindles reasonably good size and almost 50% of the yarn we are selling in the market and only the 50% we are converting into fabric as well as for the garment. So, we have capacity still for our captive consumption, so there is no plan for expanding in spinning and so, we are looking for only the products of value-addition. So, that is mainly into the garment and another thing also we are looking to make the branded garments. So, that is also under discussions our main CAPEX plan will be only in the garment as well as the value-additions including branding.

SahilDoshi: So, just going back to the point which you made, how scalable is garmenting from your own because I understand it is more to do with HR management also because we are a large company, today managing 15,000-20,000 employees how much do you really believe can you scale up to potentially, could you go at 2x, 3x size from your and will we able to be comfortable managing that kind of manpower or how do we really deal with that?

P. Nataraj: No, see that is why our HR model is unique and we are having one of the best in the industry. We are providing off the job facilities also like higher education, living accommodation and facilities like food and other basic needs. Since beginning we are providing. So that is why our employees are well trained and well-motivated. So, on this the whole of the industry is looking at KPR. So, we have the best HR in the textile industry, so we are able to .We do not find any issue or difficulty in increasing the employee strength.

SahilDoshi: And just on the point where you made that you may look into branded garments, can you throw little more light in terms of how will that be different from what we are doing today and in terms of capital allocation how could that function?

P. Nataraj: See, presently it is still under discussion. That is why I do not want to say we are doing like this way or that way. Because, so far we are exporting, 100% garments and we are making only for the international brand. For domestic market , branded garments like innerwear or like other garments but mostly of knitted garments, which we have in our own facility. So, it is more easy and comfortable because we are fully in this segment so. Now, it is comfortable for us to manufacture the same thing for the domestic market. So, our aim is to look into the domestic market. So, that is what we are now planning.

SahilDoshi: Would that necessarily mean developing our own brand and investing in retail network also?

P. Nataraj: Yes, everything is under discussion. An Including what you said is also in the agenda.

SahilDoshi: Would it necessarily be something like an asset-light strategy a broader call which we took some years back.

PL Murugappan: Yes, asset-light strategy only.

Moderator: Thank you. The next question is from the line of Vinod Vaya from AnandRathi. Please go ahead.

Vinod Vaya: Sir, just wanted to know what makes the customers sticky with the KPR? Just wanted to understand if the competitor offers a low price or higher credit period or a better quality what makes the customers stick with KPR?

P. Nataraj: Timely delivery, quality and quicker delivery. We can say that one is quality because we are one of the largest in the country especially for knitwear manufacturing with fully vertically integrated. So, that is from yarn to garment and with this we are able to meet the higher standards of quality, one thing.So,even customer feel very comfort, also when they land at KPR factory they can practically see every aspect, from yarn stage to garment .They can physically see within the same campus. Because of that the waste or time due to transportation is very less. So that way customer will be impressed. Every place the goods under process has to move, but here everything is in-house. Because of that the quicker delivery, we are able to maintain. Somebody is quoting as 75 days' delivery where KPR can do it 50 days-60 days so like that. So, in case of some customer come with some emergency order like pilot products they are making we can deliver even some cases we are able to make in 30 days also as a special case. So, with these capacity and facilities of this kind we can meet anytime demand. So, these are all the special strength of KPR and as already told our employee strength is one of the best in the industry. So, I can name out these are all, some of the areas where we are having very strong hold.

Vinod Vaya: And same holds even on the international levels also when we are competing on the international level same thing?

P. Nataraj: Yes.

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

Arjun Sengar: Sir, I just had one more question. Sir what is the geographical split right now compared to the last 2 years can you give us the percentage?

PL Murugappan: Yes, Europe is about 55%, US is about 7%, Australia is about 15%, Asia is about 22%.

Arjun Sengar: I am saying 2 years back would the split be similar?

PL Murugappan: Europe is 75%.

Arjun Sengar: And US?

PL Murugappan: During the time it is about very small portion it is about 1%.

Arjun Sengar: So, basically you are diversifying out of Europe?

PL Murugappan: Yes sir, the volume wise it is growing but in percentage term it is coming down because the value is growing.

Arjun Sengar: The trend over the next coming years would be in the same direction as in Europe will decrease US will increase is that the case?

PL Murugappan: No, other countries will increase.

Moderator: Thank you. The next question is from the line of Sunil Shah from Axis Securities. Please go ahead.

Sunil Shah: Sir, I have more of a macro type of a question.Sir,given that China's cost of production is really going up in terms of labor and affluent treatment plants and all that they need to install now. Sir, how much is the competitive advantage that we are having textile as an industry here in India and how are even customers looking at doing more and more of outsourcing from India as a destination?

P. Nataraj: Actually this is a biggest advantage for Indian textile industry as China is having more than 30% global market and India is somewhere around 4% to reaching to 5% level. As you rightly said the cost of production is going up in China itself is slowing down in the textile manufacturing and already if we see that in the last 2 years we are able to feel the difference because lot of customers from China is coming out and majority portion is coming into India and some portion is going to Vietnam and even Bangladesh and see even suppose even another 4%-5% reduction in China will be a big boost for India. In that even 50% comes to India then in India we will move from 5% to 7%-8%. So, it is around 50% growth will be there in India which is a very huge. So, it may happen in the next 2-3 years so that is why the Indian textile industry is upbeat on this aspect. So, everybody expect this going to happen maybe another 2-3 years.

Sunil Shah: Sir, then in that case 2 cases – one right now we are having this duty drawbacks, so that is a minuscule difference because overall as a company we are affected only by just 1% point. So, still that does not do away with any cost advantage that Indian textile manufacturers have compared to China alone right now? So, even if our 1% effect is there it does not disrupt our cost advantage?

PL Murugappan: Correct.

Sunil Shah: And sir, secondly even if it is moving to Bangladesh or Vietnam that country is do they have integrated player something like what we are right from first raw material till garmenting, so does Bangladesh and Vietnam also have such scale and such size of players who are integrated end to end?

P. Nataraj: No, there are players in Bangladesh and the Vietnam with integrated facilities but one biggest advantage for India is the raw materials. India is the only country having surplus raw material and this Bangladesh and Vietnam have to depend on other countries including India.

Sunil Shah: So, cotton is our advantage?

P. Nataraj: Yes.

Sunil Shah: So, even if business is shifting from China partially over there we always will have that advantage of cotton and integrated….

P. Nataraj: Yes, definitely.

Moderator: Thank you. The next question is from the line of VikasMantri from East India Securities. Please go ahead.

VikasMantri: Actually I missed the number for yarn and fabric intonnes for the current quarter say, 2Q FY17.So,I missed that number, I heard 18,541 so that was for yarn?

PL Murugappan: Yes and 1,192 for fabric.

VikasMantri: So and sir lastly what would be the average tax rate for the current year?

PL Murugappan: About 26%.

Moderator: Thank you. The next question is from the line of Sunil Kothari from Unique Investment. Please go ahead.

Sunil Kothari: Sir, just one clarification with Mr. Murugappan. He says only if the duty drawback remove also, will be having at 10 crores-15 crores annual benefits. So, will you clarify this is right what I understood?

PL Murugappan: Yes. It is company as a whole we are having a positive impact. It is expected to be around somewhere around 10crores to 15 crores.

Sunil Kothari: With withdrawal of duty drawbacks from 1stOctober also?

PL Murugappan: Yes, because lot of areas which we were not eligible for input credit previously, those are all now eligible under the GST.

Sunil Kothari: And sir, one more thing is we mentioned that because of some GST and all that fabric sale was down in quarter 2.How do you see the trend and now again onwards will we be able to sell the fabric what we were selling or it will be very difficult?

PL Murugappan: No sir, since the fabrics become taxable during the second quarter people were buying either yarn or fabric. Confusion is going on. It will settle in the due course.

Moderator: Thank you. The next question is from the line of RiteshBadjatia from Asian Market Securities. Please go ahead.

RiteshBadjatia: What is the attrition rate in your garmenting unit?

PL Murugappan: Attrition rate is about to 2%.

RiteshBadjatia: And going at for your expansion plans do we look at only nearby that Coimbatore region only or any other location also you are considering?

PL Murugappan: Presently we are looking at around Coimbatore region only.

RiteshBadjatia: So, that Coimbatore region is having that ample amount of the labor availability because some of the guys from those regions are telling about the labor availability is little bit issue over there and we have already employed more than 15,000-18,000 kind of the employees.

MD: See this, depending upon the company and the HR policies. As I said earlier we are having one of the unique HR model. Our HR model is very different from others here. So, for us getting the new employees is not a problem.

RiteshBadjatia: And secondly do we have a team of the designers also to give the value-added product in the garmenting?

PL Murugappan: Yes, we have designers, we have a design studio.

RiteshBadjatia: So, how big is the team, in the design side?

PL Murugappan: It is somewhere around 25 to 30 people.

RiteshBadjatia: In the terms of percentage of sales how much we are spending?

PL Murugappan: May be 1 % or 2%.

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

P. Nataraj: Thank you, as already explained there prevails a huge potential for India in the textile sector. Strong fundamentals, dynamic business strategy and supportive positive factor shall continue to accelerate the growth level of KPR. I thank you very much for attending the Conference Call. Thank you very much.

Moderator: Thank you. Ladies and gentlemen, on behalf of Batlivala & Karani Securities that concludes today’s conference. Thank you for joining us and you may now disconnect your lines. Thank you.