KPR Mill Ltd.
Investors/Earnings Conference Call
(May 04, 2018)

Moderator: Ladies and Gentlemen welcome to Q4 FY18 Post Result Conference Call of KPR Mill hosted by Batlivala & Karani Securities India Private Limited. We will start the call with all participant lines in the listen-only mode. There will be an opportunity to ask questions after the management commentsconclude. Please note that this call is recorded. If you need assistance during the conference, please signal an operator by pressing * then 0 on your phone. I would now like to hand the conference over to Mr. Prerna Jhunjhunwala. Thank you and over to you Ma'am.

Prerna Jhunjhunwala: Good evening everyone on behalf of Batlivala & Karani Securities I would like to welcome you all for Q4 and annual FY18 Results Conference call of KPR Mill Limited. From the company we have with us the senior management of the company including Mr. P Nataraj who is the Managing Director, 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 their initial comments. Thank you and over to you sir.

P Nataraj: I welcome you all for the KPR Mill Q4 as well as the financial year 2018 Results. And with me Mr. Murugappan Chief Financial Officer and Mr. Kandaswamy Company Secretary are here. Now the floor is open for the questions.

Moderator: Ladies and Gentlemen we will now begin the question and answer session. Our first question comes from the line of Mr. Abhijit. Please go ahead.

Abhijit: Just few bookkeeping questions first on your sales volume for the three divisions yarn, fabric and garments and for the quarter if you can tell us sir.

Murugappan: Yarn 16850 tonne Fabric 1650, garments 22.6 million.

Abhijit: This would be the highest for garments in a quarter for you.

Murugappan: Yeah it is the highest.

Abhijit: Sir for the same quarter last year that is March, 17 quarter if you can just tell me if you have that number ready with you?

Murugappan: Yarn 15650 tonnes, fabric 6,645 tonnes, garments 17.2 million.

Abhijit: By value terms also if you can tell the number.

Murugappan: yarn 348 crores, fabric 35 crores garments 298 crores.

Abhijit: And same quarter last year?

Murugappan: Yarn 316 crores, fabric 144 crores garments 252 crores.

Abhijit: Going ahead any plans for expanding although it is not fully utilized as of yet, but any plans of expanding the garment business in India developed capacity that is?

P. Nataraj: Now the existing capacity's ramping is still going on and this year we will complete so that is why now we are looking for the expansion outside India where there is various incentives, facilities are there. So now we are planning to explore those opportunities first, then we will think of it.

Abhijit: By when do you think your overseas plans will be finalized and in what kind of investment you are looking at right now there?

P. Nataraj: Recently, all our technical team and as well as management visited. We had fruitful discussion with the government officials and we have visited also various facilities in different parts of the country. Almost 7 days they were fully with the officials and went to various places and explore the opportunities and in fact it is a good opportunity what we have seen practically is technical as well as other feasibilities and now we have to look into the all legal aspects, all the formalities. Now studies going on and again we shall have more interaction with the government. So once everything is settled then we can go ahead with the project. Then the things are in our hand so we can predict and say these. The timeline maybe 3 months 4 months Before the approvals and other formalities I think it is difficult to say the exact time, but we are on the job This Ethiopian government is also very eager to bringing into their country investments and they are also very keen and we hope it is possible as quick as possible, but as on today, It's difficult to quote the exact timeline.

Moderator: Our next question comes from the line of Mr. HR. Gala an Individual Advisor.

HR Gala: Sir just wanted to know can you give an overview of the global garment business like are we facing any because see volumes have grown so well, but I think our unit realization is going down and as you have been telling in the past that we want to get into more of a mass sort of volume growth, so do you think that is happening.

P. Nataraj: As you rightly said even in the past also we have explained about the volume as well as the realization. See, if there is a 100 machine and if the design is tough and is costly for example Rs.150 and with lot of extra stitches normally the production will come down i.e. number of piece on the other hand in the garment stitches are very less and it is a very basic product the price will be low maybe aroundRs.110 whereas the production will be much higher.

For example in the first case the production is suppose say 500 pieces in the second case it maybe 1000 pieces. So ultimately when you multiply the quantity as well as the price the net volume growth will be there overall it will be better. When the business is expanding it is always to first the number of garments we have to concentrate more to reach at full capacity level. So in that case whether it is high value item or even little lower value item we have to fill the capacity. When we get the big order just volume order at a little lower price, we cannot leave it because if we want for high price order the factory will be idle.

HR Gala: Despite this volume growth because the sales value growth has not been much. You know our top line and the EBITDA level has more or less remain constant in textile, so what were the major contributing factors was it that the cotton prices were ruling high and we did not get good price for yarn and fabric or how did it pan out?

Murugappan: Actually, during Q3 and initial Q4 cotton price and the yarn price parity was there because of that a lot of realization difference raised during that time. Cotton was at the higher price, but yarn realization was at lower price. They had the impact on the overall financial for the year. Yeah this is what you pointed out that is right because of the high fluctuation of the cotton price during those period Q3 and Q4.

HR Gala: Third and fourth quarter of last year you are talking about. I am talking about 2018.

Murugappan: FY18..

HR Gala: PBIT margin that we report under textile has come down from 15% to 14% you know almost 1% down.

Murugappan: This is because of yarn prices and cotton prices fluctuations.

HR Gala: Earlier parity was there then it was not there.

Murugappan: Yeah last year the parity was good. During the end the parity is not there.

HR Gala: So now how is the situation from Q1 onwards sir?

Murugappan: Q1 is good sir doing well the margins are stable now.

HR Gala: As far as garments are concerned we have done 76.4 million, what will be your target for FY19?

Murugappan: We are looking at somewhere around 82 to 84 million garments during the year.

HR Gala: So then we will be reaching close to 95 million capacity pretty soon.

Murugappan: Sir on the value wise we are looking at 25% growth.

HR Gala: No like 95 million this is our current capacity and next year you are planning about 82 to 84 so we will be getting very close to our installed capacity. Next bout of expansion will be by how many million pieces?

Murugappan: We are looking for setting up a factory outside India that is in Ethiopia and we are planning around 10 million capacity. As already explained the discussion is going on, One big advantage in Ethiopia is that the government is already having the land and building readily available so that is why they said just we can come plug and play. We have to install the machine and we can start the production. So that was the condition and actually our team also visited. As you said the building is ready, Construction time will be saved that is one thing and as well as it is on lease basis, so the CAPEX also will come down. So, in garment we see this land and building will be the larger size compared to the investment on the machinery. So these are the advantages so that is why we are studying all these things and once the government and the legal aspects are cleared we can make the facilities quickly.

HR Gala: So roughly what kind of CAPEX we will be having for these 10 million capacities?

P. Nataraj: Around 5 million USD. Because as already the land and building is there only we have to go for a lease agreement and we had to pay only the lease rent. The investment will be for 10 million pieces production.

HR Gala: CAPEX will be $5 million. At which markets we will be serving from Ethiopia?

P. Nataraj: Same client sir Europe and US.

HR Gala: Same type of garment that we make in India.

P. Nataraj: Yeah.

HR Gala: So in India you do not have any plan to expand capacity beyond 95 million as of now?

P. Nataraj: As of now we have other possibilities with better opportunity so that is why we are exploring that. After that there is also another project. So first we are looking for this Ethiopian facility then after that we will decide the other option.

HR Gala: Sir in garment do we get about 22% type of EBITDA margin.

P. Nataraj: It is expected to be around 22%, this year is about 21%.

HR Gala: So next year we can expect 22.

P. Nataraj: Because of ramping up of the newer facilities the margins are little less. We hope that we will achieve 22 plus kind of a margin in the coming years.

HR Gala: Sir just last question from my side our other incomes has drops drastically from 27.5 to 14.2?

P. Nataraj: Actually, we are eligible for a subsidy from the state government for the new units. After the introduction of this GST, the government is keeping that pending as well as they issue notification, it will be accrued.

HR Gala: Okay that is about Rs.18 to 19 crores we could not book it.

P. Nataraj: It is about Rs.10 to 15 crore. We could not book it.

HR Gala: Last year I think it was about 18, 19 crore if I have not mistaken.

P. Nataraj: It was 19 crores.

HR Gala: So this year we are eligible to about 10 to 15 crores**?**

P. Nataraj: Already 5 crores up to first quarter we have booked.

HR Gala: How much you have booked?

P. Nataraj: Till about 4 crore we have booked.

HR Gala: And the balance 10 to 15 crore was yet to come?

P. Nataraj: Yes. We are waiting for the clarity from the government.

HR Gala: Okay, but do you hope that government will give the subsidy?

P. Nataraj: Yeah. We have a hope because already there is a provision in the agreement. So, the government will come out with the notification on this.

HR Gala: So, we expect to get and then probably we will book it in FY19?

P. Nataraj: Yeah correct.

HR Gala: And then FY9 also this subsidy is going to be for how many years?

P. Nataraj: Another 5 years.

Moderator: I am sorry to interrupt Mr. Gala. We have a question from Mr. Sahil Doshi from Aditya Birla Sun life Insurance

Sahil Doshi: Sir just wanted to understand more further on this Africa CAPEX for the plan which we are evaluating if I give you a rational meaning what is the advantage of looking at Ethiopia or African country vis-a-vis India where we are actually forward integrating and also have entire systems and everything in place, what is the rational to look at that when you understand you said there are subsidies which are plug and play, but in terms of scalability opportunity could you highlight what is the benefit you are getting?

P. Nataraj: Sir this integrated facility will continue because from here may send ready to cut fabric to Africa. That means this chain will continue, instead of stitching here we stitch there itself and the biggest advantage is that you know Indian Garment Unit there is a 10% of import duty at Europe and 16% duty at US and if the garment is made of polyester duty is high as 28%. So depending on different product from 10% to 28% the import duty is there so there is a bigger advantage whereas other countries like Bangladesh, Pakistan, Sri Lanka, Ethiopia do not have the import duties so this is the biggest difference.

If price is not matching the customers are taking to other country. When we move into there we will get that advantage. Another thing is that the labor cost is only 50% what is in India. The third one is power cost is just Rs.2 per unit whereas it is here around Rs. 6.75 paises so these are all the advantages compared to India. That government inviting the investment into Africa. So there the land and building everything government already made ready. So, our investment is also very less for example for 10 million garments here we have to invest at least 100 crores, there it will be around 30 crores. If we calculate the interest cost also is much saving. We will get continuous orders because of the price difference. These are all the big advantages of having the factory there.

Sahil Doshi: Sir just dwelling on that point further could you highlight in terms of the labour there and the quality and the efficiency there because you will have to invest significant time in training etcetera on like-to-like basis how do you think it will be to how difficult or how will it be to operate from there and will be efficiency is it difficult to get the same level of efficiency as you have in India?

P. Nataraj: We have already visited Ethiopia and there are already some 3 or 4 garment factories. We have also identified some location where there is already the similar kinds of factories. In the beginning we have to take some technical people who are expert maybe around 5 to 10 people and for training 15 - 20 people. They give training for at least 200, 300 people every month and we are expecting around 750 to 800 employees are recruited. The labour is available in plenty there and the cost is also cheap and training them is not difficult as we are already experienced 1 or 2 months they can be trained, there the people are doing all kind of work, and they are much adapted for any kind of work.

Sahil Doshi: Sir on a steady state basis, what do you think could it be potential revenue be meaning will it be the same kind of product mix and also in terms of margins can you be equivalent to our India business or it can be higher?

P. Nataraj: We are confident that we can make little higher margin. That is the reason we are planning all this, the studies are going on what are all the cost and what is the advantage we can get, of-course theoretically it is there, but we are all practically studying. In the factory one of technicians still there studying entire thing practically and we are also discussing with our buyers also. So, it will take some more time, but definitely we expect something better than what we are doing here that should be meaningful, then only when we go there and make all these things.

Sahil Doshi: Sir in your previous call you had also highlighted that you may look at opportunities and retail stores and so could you highlight a little more on the India business and how do you see the road m9ap say 3 years then if you want to invest further in garmenting given lot of other states are giving lot of incentives also and if you have any plans in retail etcetera?

P. Nataraj: we had discussed already regarding retail businesses. The board has approved and we are also looking for retail. All we can say is it not like a manufacturing; it's a different kind of things. So moving slow and steady. We have already engaged one team and they are completely studying the market, as well as developing the design, style, pattern. In the sample development and designing we have to be very careful. Even inner wear we have to make out the fabric quality and elastic, trial run and everything is going on that testing is all going on so that once everything is complete then we will slowly start this.

Sahil Doshi: So basically, give some more clarity in terms of what will be the natures of retail you will be going independent or you look at JV or something of some other means.

P. Nataraj: No presently we are working independently only, but if there is any good chance of getting across we can go for JV or even like very attractive offer is coming we can take over it also. We are open for that, but we are giving full attention on our own development.

Sahil Doshi: Sir this is last one 3 years hence meaning where do we see more garmenting expansion taking place Africa or India and how do we see retail overall fit, how much as a board or as a company how you are thinking like would retail we are sizeable contribution to our business or how?

P. Nataraj: Were continuously expanding here in India so far and this is the first opportunity that has come for Africa. So we can say that only after establishing the first factory we have to practically see the advantages and benefits. If it is there then we can further expand in Africa. it is the first initial step where the investments also is less so what you see is less risk at the same time we can add the capacity with a lower investment. We have to wait and see that is for next 3 months after that only we can say something on this. Retailing we have all the facilities where the people in the beginning have to depend on everything outside, But we have all the integrated facility so that will support in approaching the retail market and I hope that this also do well. We were continuously studying in the last 5 years and Indian domestic market. In the last 1 or 2 years the market is very attractive and the domestic market is booming. So I think in the future next 5 to 10 years will be very good for domestic market. So I am very confident that definitely this retail will have considerable share in our revenue.

Moderator: We have a next question from the line of Mr. Abhishek Anand from Centrum Alternative.

Abhishek Anand: Just want to understand on the garment what maximum utilization can we go to beyond which we will look at expansion.

P. Nataraj: We can go up to 90% of the capacity.

Abhishek Anand: Is it right that we will first look at evaluating this 10 million and according to you see further expansion for say FY20 or so?

P. Nataraj: You are right.

Abhishek Anand: And basically, what time for you how much time will it take to say expand 10 or 20 million capacity we have to add?

Murugappan: Since it a first project we want to see all the operations and then we will decide of all.

Abhishek Anand: And sir based on your garments guidance it appears that we are looking at 15% plus improvement in the realization in the garment to achieve 25% value growth and last 2 years, 3 years trend we have seen that there has been a pressure on the realization in the garment so what would lead to this 15% plus improvement in the realization within garments?

Murugappan: In the last 2 to 3 years we are continuously expanding the garment business and we are ramping now. We generally go for a lower value garments to achieve the capacity and running the factory in full. Now we have more or less reached the full capacity, so we are looking at some value additions also .We have already established the printing divisions, embroidery division and the other value added segments also we have added like full body printing and new printing facilities and other things. So we hope that we will achieve better.

Abhishek Anand: Lastly what level of captive consumption you would have reached in yarn and fabric qualitatively you have mentioned in the presentation that it has gone up, but just wanted to understand if there is a number which you can share?

Murugappan: Currently the captive consumption is about 9000 tonnes of fabric. We hope to increase it by another 15% to 20% during the year.

Moderator: We have a question from the line of Mr. Arjun Sengar from Reliance Mutual Fund. Please go ahead.

Arjun Sengar: Sir in this yarn segment can you please tell us what is the EBITDA margin in this quarter versus same quarter last year?

P. Nataraj: The current quarter EBITDA margin is about 16.5% in the yarn and fabric segment. The same was about 16.5%.

Arjun Sengar: Last year same quarter?

P. Nataraj: Last year it was more or less the same.

Arjun Sengar: So where does the decline in the margin versus last year because if you look at the textile segment there is 100 bps declines versus last year so that has come from which segment out of yarn fabric and garments.

P. Nataraj: Yeah weare talking about the fourth quarter. Actually full year the EBITDA margin for yarn and fabric is about 20% last year it's about 17%.

Arjun Sengar: In the coming quarter I think you are saying that the margins should improve what should lead to that for yarn and fabric?

P. Nataraj: Yarn and cotton prices are very stable now the margin are protected.

Arjun Sengar: I mean it will be stable at current level or you feel it can increase before.

P. Nataraj: For the next two quarters current quarter and next quarter we are not expecting the fluctuation in the prices. When there is a off season generally the fluctuation will be less.

Arjun Sengar: Secondly sir just to clarify you said labour cost in Ethiopia is 50% cheaper.

P. Nataraj: Yeah compared to Indian.

Arrjun Sengar: Of course labour is key cost item so I mean your margin should be undoubtedly higher than Indian operations right and significantly higher.

P. Nataraj: Yeah that is what our hope also.

Arjun Sengar: One final thing on this retail you had first updated us almost a year back when you said you were looking at retail, but does seem that much ground has been covered, what is it that is taking more time to finally crystallize this plan?

P. Nataraj: We have to set right market. We have to study which market, which centre and what product and we can go for. You know, lot of products are there. Some retails are doing only T-shirts some are doing leggings and some are inner wear even inner wear itself there is more than 50 items in design and styles. The fit is very important. So, just like that if we go on to launch something and if it is not moved in the market or even the customers are not satisfied with that they will never look back.

We have to extensively study the market. That is most important and what people are doing continuously we have to buy some brand products and we have to check the fit and even sometimes we have to use it and we have to feel what kind of the convenience or issues and all these thing is not just like taking a decision in a day, But it will take time so that is why we want to do that properly. That is why all the studies are going on.

Arjun Sengar: Just lastly what is the cotton stock holding currently and at what price?

P. Nataraj: We have around 4 month stock.

Arjun Sengar: And what is the price at inventory?

P. Nataraj: Price is around 43,000.

Moderator: We have a question from Rohit Chawla from Axis Securities. Please go ahead.

Rohit Chawla: In the past few years we have seen that China dominance in textile export has come down and the growth that are decreasing in as compared to China we are better at labour cost and power cost. So, do we see our exports so we have seen our export entry from 33% to 40%. So do we see that increasing further in future?

P. Nataraj: Yes the new capacities are coming in India also. The growth will be there, not in the range of 30% to 40% somewhere around 15% to 20%.

Rohit Chawla: And what is the margin differential between export and domestic?

P. Nataraj: You are talking about garments right.

Rohit Chawla: Yeah.

P. Nataraj: We are only doing exports

Rohit Chawla: In terms of our realization the other analyst also spoke that our realization have come down from almost 150 per piece in 4 years back to 131 and as we see now the price is stabilizing so can we achieve that 150 levels again in the coming future.

P. Nataraj: Yeah, the factories are ramped up now. We hope that the realization goes up. As I already explained to you we have setup the value-added facilities and we just hope we will achieve the better realization from the coming quarters.

Rohit Chawla: We also sugar piece in our portfolio so how the margin is it ramping but how is that performing for us?

P. Nataraj: Current year sugar performance is very good compared to previous years we have crushed about 850,000 tonnes of sugar during the year compared to 350,000 last year. We have made a very good generation in power front also comparatively we generated about 8.50 crores units against 4.22 crores units last year where our sugar stock price is about Rs. 26. We produced about 88,000 tonnes of sugar. We sold almost 24,000 tonnes we are holding some 64,000 tonnes of sugar. So, we hope the year will be good.

Moderator: Thank you. Our next question comes from the line of Ashutosh from Olam Agro India Private limited.

Ashutosh: I just wanted to check, sir do we expect an increase in consumption of cotton for our mill this year and if yes by how much percentage will it increase vis-à-vis last year? And also, I want an idea how much do you think that Indian cotton consumption is likely for increase for this market year 2017-2018?

P. Nataraj: See we are not expecting any increase in the cotton consumption for our mill this year.

Ashutosh: In general?

P. Nataraj: The capacity has not increased in India. So, the consumption level expected to be the same for the coming year also.

Ashutosh: So sir, 3.2 crore would be an ideal figure for you this year?

P. Nataraj: Yes, adequate sir.

Ashutosh: And one more thing I wanted to ask you sir, is do we see cotton prices moving higher because the export has become very feasible Indian cotton has almost 15 cents cheaper than West African. So, do you think that the cotton prices will move higher because of higher exports or things like that or how do you see the prices in the next 2 quarters?

P. Nataraj: See, actually first of all cotton is available in India as well as throughout the world and already the international prices ruling higher. So, because of that there is a chance of the domestic price moving little upward but instead what I feel that as the cotton is available, the international price has to come down. So this is the situation and only because of that international price is much higher, this domestic cotton is exported now. But I do not think so that this will happen much.

Ashutosh: So, from the current levels of say Shankar-6 which is around 41.5 to 42 you do not expect the market to go beyond 4%-5% that is maximum about 44,000 to 45,000 that is the maximum which will expect?

P. Nataraj: Yes, I doubt that it will touch 45 and all. What I feel that another Rs. 1,000 or Rs. 1,500 may go up and but that is why mills are also very clear they do no not want to buy and keep stock. Because like the carrying cost of some 1 to 3 months will match this price Rs. 1,000-Rs. 1,500, and cotton is available in the country. So, that is why mills are very comfortably buying not pushing at the price or hurrying up to buy.

Ashutosh: Sir, one more question I had to ask you the other analyst he asked you a question regarding your current fabric and yarn margins this year as the overall is 17%, last year was 20% and this current quarter is 16.5%. So, I want to know what the current margin on yarn is specifically. What is it currently and what was it in the same quarter last year? Just the yarn portion.

P. Nataraj: Last year first quarter is about 20%. This year first quarter we are hoping that somewhere around 18% to 19%.

Ashutosh: This quarter sir, Q4 FY18, how much was the yarn margin?

P. Nataraj: March is about 16.5%.

Ashutosh: So, you are expecting the margins to shoot up by another 2.5% in the next 2 to 3 months.

P. Nataraj: Yes.

Ashutosh: And sir how is the yarn export demand currently?

P. Nataraj: Yes, it is okay, the export price will be lower than the domestic price. Now it is almost the same price.

Ashutosh: And sir, what is the view on the Indian crop sir, regarding the pink bollworm issue we had a lot of hue and cry about the Indian crops. So, what is your estimation of the Indian crop this year? How much is it going to be in terms of bale around 355-370, what is your estimate?

P. Nataraj: No, actually my estimate is a little higher and I expect around 380. As the Vice President of the Indian Cotton Federation our estimate is made around 378 lakh bales and still most people are making big noise on the pink worm but actually it is not so. And what people say that a lot of quantity is damaged and all there it is not like that. But all the medias and especially the Whats App sending the same message for number of times and it travels millions of people. So, because of that people feel it is too much but actually it is not that so. Practically I have seen that even in Maharashtra where it was earlier hit people say that plenty of cotton is available. Similarly, like Andhra Pradesh, Telangana everywhere cotton is available. Only quality issue due to mixing of cotton. They mix with good cotton the substandard cotton. So, because of that if they mix 10 bales with that quality with 100 bales of good quality then 110 bales become inferior quality. So, that is the way people are doing. So, quantity is available, only exported quality is not there. Then you have to be selective in buying the cotton. Otherwise I do not find even if 75 lakh bales goes for exports also still this year will be very comfortable. The mills know this very clearly that is why mills are not very much hurrying and rushing to buy. This year you can hardly see that mills are in the market to buy. But slowly people are buying having some stock in their warehouse. Everyone knows there is a stock only the thing quality is inferior. So, otherwise I do not find any big issue on cotton this year.

Ashutosh: Sir, one last question is regarding your operating capacity and operating margins. So, right now what is your operating capacity, sir in yarn, fabric and garment segment?

Management: Actually yarn and fabric is about 90% and garment is about 75%.

Ashutosh: Garment is 95%, sir?

Management: Garment is 75%.

Ashutosh: And sir just I would like to conclude by asking one last question. Everywhere we hear that the spinning margins are at 2-year high everybody tells that we are having the best spinning margin this time. So, in terms of consumption that is not going to have any much impact right.

Management: Yes, will not have impact.

Moderator: Thank you. We have a question from Mr. Raunak Buljaria, Edelweiss management.

Raunak Buljaria: Sir, I just wanted to get a geography wise revenue. How would be our garmenting geography wise breakup?

Management: Year as a whole, Europe is about 51%, US is about 7%, Australia is about 13%, and Asia is about 28%.

Raunak Buljaria: So and in terms of growth, from which regions are we seeing good set of growth like in FY18 is it like all regions are, we are seeing good growth or we did face some issue from regions like US and Europe?

Management: Not facing any problem. We are planning to increase the share of US.

Raunak Buljaria: And also if you could just help currently what would be the share of basic versus value-added.

Management: Value-added and basic will be somewhere around 50 versus 50.

Raunak Buljaria: 50-50.

Management: 50% value-added 50% basic.

Raunak Buljaria: And going ahead we plan to increase our share of value-added?

Management: Yes.

Raunak Buljaria: And also just wanted to understand that though you explain all the benefits for setting up a plant in Ethiopia but is it something like do we have any challenges in terms of labour in the Tirupur region, is that also a concern or it is just because of these benefits we are going with Ethiopia?

P. Nataraj: No, there is no challenge here about labor. Of course, there is a shortage in Tamil Nadu but now labour is coming from all over the India like Bihar, Orissa, UP. Being the SIMA Chairman for the first time from the SIMA we sent a team of people there where the government itself has coordinated and around 2,000 employees were selected out of the 4,500 and thanks to our state government. They have arranged one special train to bring in those people to here and to Coimbatore. So, like that now the workers whether it is male or female not hesitant to travel anywhere in India. So, already people from southern states are here working in the last 4-5 years but now people coming from other states. So, availability is not an issue. Now we have to bring the people from there. There will be an additional cost, so otherwise there is no issue at all. Even if you see in the last couple of years there is a lot of people from UP, Odisha, Bihar all are working here.

Raunak Buljaria: The people are migrating, okay.

P. Nataraj: People are migrating, yes.

Raunak Buljaria: And lastly by when would are this Ethiopia plant would be operational like do we have any target like by when will it be operational?

P. Nataraj: Yes, that is why I told that initial discussions are going on legal aspect and government discussions. So, these things will take its own course, we cannot push it, or we cannot say the time line. But once this is over then as already I told that land and building everything is ready. The building is ready, so construction time is saved. So, once it is ready we can make it as quick as possible.

Raunak Buljaria: End of this financial year at least by then we can see that it should be operational?

P. Nataraj: No, much earlier than that, so what we hope.

Management: We are now hoping earlier, much earlier than the end of 2019.

Moderator: Thank you. We have a question now from the line of Mr. Mandar Pawar from Kotak Mutual Funds.

Mandar Pawar: Just wanted to understand on the depreciation of the currency. On the garment export are we able to retain the benefit or does it become a pass through the customers. On the yarn export I assume you will be able to retain that right? Am I correct on that?

Management: Yes, you are right. With KPR, currency fluctuation will not have much of an impact because generally we are covering the dollars as and when we conclude the contract. And we are not only covering foreign currency, we are also covering all other parts also including cotton we are covering. Yes, it is advantageous to us. We are competitive than the other competing countries.

Mandar Pawar: So at what level we will be covering this currency right now?

P. Nataraj: See what I mean, we confirm an order today, and we will cover the currency at the same time. So, one thing, your question is that the depreciation will how we will share it right?

Mandar Pawar: Right.

P. Nataraj: Yes, normally happens during the negotiation with the buyer and whenever the sudden increase in that the buyer also knows and will demand to share something but always when it is depreciated we get a better advantage.

Mandar Pawar: And for this Ethiopian capacity, you did earlier service in US and Europe. But will it be the same set of customers or there have to be new customers who may have to go to that approval process for the facility and all that if you can give some picture?

P. Nataraj: Presently same set of customers. Already they are ready to place the order but though we already have some US customers but still we are looking for some more US customers. Because when we go for US it will be more advantage because the duty saved Europe is 10% but for US it ranges from 15% to 28%. So, there we can get more benefit out of that.

Mandar Pawar: And one last question on this retailing venture that we are thinking about, you said that it is still in the planning stage. But in terms of whether you are looking at getting in-licensing or whether you are trying to establish own brand, if any thoughts on that front?

P. Nataraj: No actually the work is going on and we are developing our own brand, so this all the work is going on. And even suppose any good opportunities coming for JV or like some existing brand, we are open for that. If it is attractive we can consider that.

Mandar Pawar: But because if we are also considering developing own brand that will have a longer gestation, what could be the investment that could be required, color you can give on that?

P. Nataraj: See for branding as we are already having all our facilities like designing is existing facilities itself we have to recruit some technical people only that is what we are already doing that. Otherwise there is no investment on designing and all these things. Only we have to look into that going for retailing whether to have MBO or EBO. We are actually in the initial stage Branding may take some times over, so we are looking for EBO kind of thing, with the less investment. We do not want to put more investment and keeping it idle.

Mandar Pawar: And a final question. On this sugar we had investment where there is no requirement of power and power availabilities better we could look at hiving off this, any plans on that whether there is any change of idea whether we are continue to having that plan or any development on that front?

Management: Still we are looking at the opportunities, sir. If the opportunity is good, we may be hiving that off also because the power position in Tamil Nadu has improved substantially.

Moderator: Thank you. Our next question comes from the line of Ms. Supriya Madhyefrom East India Securities.

Supriya Madhye: I just need a separate volume break up for the yarn and the fabric for the whole year FY2018 and FY2019. This is my first question and second question I just wanted to understand like how much is the user we had a 50% value-added and a 50% in the normally yarn. So how much, what proportion goes from each of this category for this captive consumption?

P. Nataraj: So, now the entire yarn is value added yarn. Last 2 years we have converted the entire facility into the compact facility.

Supriya Madhye: You just mentioned some kind of packet is 50%....

Management: Yarn production for the year 2018 is about 85,000 tonnes, financial year 2017 86,000 tonnes.

Supriya Madhye: And fabric?

Management: Financial year 2018 20,000 tonnes, 2017 25,000 tonnes.

Supriya Madhye: Sir and just wanted to know what would be our debt for the year end?

Management: Term-loan Rs.182 crores, working capital Rs.450 crores.

Supriya Madhye: And what we are planning to be by the end of the year, current year any debt repayment plan like the last year?

Management: Yes, the regular repayments in the term-loan will happen because all the loans are under TUFS subsidy and whatever cash flows are made will be passed in the working capital.

Supriya Madhye: Sir and can you just give me the sugar numbers once again? I just missed the number.

Management: Yes, I will give you. Sugar, you want production?

P. Nataraj: Sugar production is 88,000 tonnes, stock about 64,000 tonnes. You want last year? (Can change it to stock)

Supriya Madhye: Yes.

P. Nataraj: Last year is about 32,000 tonnes, stock is about 38,000 tonnes. (Can change it to stock)

Supriya Madhye: And how the trend you expect for the current year?

Management: Current year expected to be good because this year also monsoon is very good in the area where our sugar mill is situated. We are hoping the same kind of crushing this year also.

Moderator: Thank you. We have a question now from the line of Mr. Ritesh Badjatya from AMSEC.

Ritesh Badjatya: Sir, my question is on your Ethiopia plants. So, like in the Ethiopia we are going first time and we have to also give some training to our labors for our operations and all. So, just wanted to check are our customers is also okay to source from new set up or it will take some time before ramping up?

P. Nataraj: Yes, we are already discussing with our customers. They are okay for that. In fact already there are number of factories there in Ethiopia where these customers also buying from Ethiopia from other suppliers. So, that is not an issue and It is not a totally new place and already good factories are there and good volume of business is also happening so that is not an issue.

Ritesh Badjatya: Secondly, like in the Ethiopia side, we are doing this thing on some lease. So, what kind of the lease is available for that?

Management: It is long time lease, generally it comes for a period of about 25 years to 50 years.

Ritesh Badjatya: And do you see any other Asian player is also very active in the Ethiopia side what we are as of now exploring?

Management: Some of the people from the same region also established their factory there and manufacturing there.

Ritesh Badjatya: So, from the customer side or from the region wise, which geography basically customers are mainly outsourcing from the Ethiopia side like US customers or the Australian customer or Europe customers?

P. Nataraj: Sir, US, UK and Europe as well as Australia everybody is sourcing from Ethiopia.

Moderator: Thank you. Our next question comes from the line of Kinjal Jugani from MM Savla Consultancy Services.

Mulay Savla: Sir, can you explain me something regarding duty drawback that the garment industry is facing some problems after the introduction of GST. So, what is the status and you were referring to some incentive for 5 years, was it referring to the same duty drawback or that was related to new facility?

P. Nataraj: No, that is totally different. Actually, that is for the investment subsidy given by the state government.

Mulay Savla: And how about the GST, after GST there is some reduction in duty drawback and is there any further improvement in the dialogue with the government for giving those duty drawbacks benefits?

P. Nataraj: Yes, you are right. That discussion is going on and continuously all the associations of the industry mill side and even the garment side having exporters association of garments in all the regions from Coimbatore, Tirupur and even Delhi. All association jointly together in fact appealing to the government with all the information and data . We all believe that there would be some positive result. Because, of employment opportunity in textiles especially in the garment. So, the government also knows very well and has come out with one new scheme like Skill Development Program. So, through various schemes government is supporting the new employment generation. The garment industry employs more of the labor, so government also want to encourage the garment industry. Because of the WTO norms and they cannot give incentives beyond certain limit. So, that kind of limitation is there. That is why already the government has announced in some other form. When GST came the drawback was around 7% which was reduced to 2% and there was one scheme called MEIS. That is increased to 4% and additional one is called state levy that the ROSL refund that they made to around 1.8% so like that. So, these are some areas where the government has increased though the drawback has reduced. In addition to that, some other areas VAT tax paid on certain items like accessories or other raw materials which we could not claim it back earlier now these things we can get it back. So, these are all the areas where government try to pay back. But in addition to that, recently we met the Textile Minister and the officials, what they say is the incentive form they cannot give as per the WTO norms. They have asked the industry to suggest the ways and industry also working on that. So, we hope that something good will happen.

Mulay Savla: So, now the ball is in the court of industry to suggest some alternative for such benefits?

P. Nataraj: Yes, you are right.

Mulay Savla: But can you just guess some time limit within which it can happen and what is the kind of percentage that you expect to get it by way of incentive?

P. Nataraj: In fact, this is a very difficult to answer for this because industry is working out and we have to again go to the government. We have to negotiate with them. First of all, only the issue is that as per the WTO norms they cannot give as a drawback. So, it should be named in different form so that they should not be called as an incentive. That is what government says and so we are also working on that. In fact, for example, say diesel consumption where we are paying tax this is not coming under GST. So, the study is undergoing not only in one state, but all over India I think it will take time and may be before June or July we have to submit it,. So, we hope that things will move in a positive way.

Mulay Savla: There is another question from my side sir, can you give us some new orders or new customers added to our list and I think we were also expecting some good customer from Japan for our new facility. So, can you just throw some more light on that?

P. Nataraj: Yes, we have added some 4 or 5 customers in the last 3-4 months. And we have Japanese customer also. Already with UNIQLO, we are doing, a premium customer. And we have added 5 customers in the last 3-4 months 2 customers from US and 1 from UK and 1 from Germany and 1 from Holland.

Mulay Savla: So, they are all substantial customers. Can you name them, sir?

P. Nataraj: Yes, one is in USA and H&M – Holland, Greg Norman – US and LIDL Germany and this Bonmarché – UK.

Moderator: Thank you. We have a question from Ms. Monica Sinha, an Individual Investor.

Monica Sinha: So, I wanted to know that which are the major customers in your garment division and if could give the percentage revenue share of each customer?

Management: The major customers are Primark – Europe, Kmart – Australia, Marks & Spencer, ASDA Stores, UK. So, we are generally supplying more or less 10% of our exports to one customer. We are not going beyond that limit. Some time may go little above 10% I mean, 10%-12% . Generally, we are restricting ourselves to 10% per customer.

Monica Sinha: And sir pardon my ignorance, could you give me geography wise break up for this garment division?

Management: Yes, I will tell you so. Garment division, Europe is about 51%, US is about 7%, Australia is about 13%, and Asia is about 28%.

Moderator: Thank you. We have a question from Mr. Vinod from Anand Rathi.

Vinod: Sir, I have two questions. First, what is the reason like the fabric in this particular quarter has come down? And second, the currently garment is roughly 33% of the overall revenue pie, so how does it look like going ahead in the next 2 years?

P. Nataraj: Fabric has come down because of the GST. Previously the yarn had 5% VAT and the fabric did not have the tax. That is zero tax. Because of that instead of buying a yarn and paying 5% tax everybody bought in the form of fabric. But now, after GST, yarn also 5% as well fabric also 5%. So, now the customers are buying these, mainly domestic customers. All are buying yarn and the exporters have their own knitting facilities, so they knit within their factory itself. That is the reason substantially the fabric production has come down. This is one thing and the other thing also that as our garment production has gone up and our own production has not converted into the sale, it has converted into the internal consumption. Because of these two reasons fabric sale has come down.

Vinod: The second question is like the garment is currently 33% of the revenue pie, so how does it look like going ahead in the next 2 years?

Management: Yes, we are looking at it to increase to 45%.

Moderator: Thank you. We have a question from Mr. H.R. Gala.

H.R. Gala: Yes, just wanted to know what was the capital expenditure spent in FY18?

Management: Somewhere around Rs. 60 crores.

H.R. Gala: 60 only?

Management: Yes.

H.R. Gala: And next year will be how much approximately?

Management: Depending upon the project, sir we hope it will be somewhere around Rs. 60 crores to Rs. 100 crores.

H.R. Gala: And that will not include that 5 million of Ethiopia?

Management: Including.

H.R. Gala: And sir what was the reason for depreciation to come down in this year, any particular reason?

Management: Some of the machines the period is completed.

Moderator: Thank you sir. There no further questions, I would like to handover the floor to Mr. P. Nataraj – Managing Director for closing comments.

P. Nataraj: Yes, once again good evening to all. I would like to highlight how we are taking this company for the future. One thing is that for the first time we are stepping outside India to setup a factory and if this is successful we hope that we will strongly put our facilities outside India. When we had visited Bangladesh for setting up a factory the situation was not conducive. And in ethiopia the investment is less as the government itself owns the land and building they are giving as a lease and because of that investment is less and the project execution time will be short and other benefits like reduced labor cost and power cost and there is no import duty for the customers. So, we studied all these even before going. We are seeing it as more attractive. And another point as some of our friends pointed out, of course we are little slow in retailing and I feel this is the right thing because we do not want to hurry up and in an offhandedly. So, we want to make it very clear that once we come into the market, we want to be very strong. So, these are the two areas where we are looking for and another thing previously if you see, last 4-5 years, we will continuously expanding in heavy CAPEX like spinning and all these things, now we know our debt has come down and we are looking for more of value-addition. And I am confident the management and the company will try to do their best out of the available resources. So, with this I thank you all and thank you very much once again for attending the call. Thank you.

Moderator: Ladies and gentlemen, this concludes your conference for today. We thank you for your participation and for using iJunxion Conference Service.