



“Sutlej Textiles and Industries Ltd Q4 FY 2016 Earnings Conference Call”

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Moderator: Good day ladies and gentlemen, and welcome to the Sutlej Textiles Q4FY16 earnings conference call hosted by Axis Capital Limited. 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 this conference call, you may signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Aditya Bagul from Axis Capital Limited. Thank you and over to you Sir!

Aditya Bagul: Thank you Mallika. Good morning everyone. On behalf of Axis Capital I welcome you all to Q4FY16 earnings conference call of Sutlej Textiles and Industries Limited. We have with us today from Sutlej Textiles, Mr. S.K. Khandelia, President and CEO, and Mr. Dilip Ghorawat, Whole Time Director and CFO. I now request Mr. Ghorawat to give us a brief overview of the results and Mr. Khandelia to share his outlook on the sector and Sutlej Textiles in particular, post which we will open the call for Q&A. Over to you Sir!

Dilip Ghorawat: Thanks Aditya. Good morning everyone. I welcome you all to the earnings conference call for Q4 and annual results of the company for FY2016. I have with me Shri. S.K. Khandeliaji, President & CEO and Mr Gaurang Vasani of Stellar IR Advisors Pvt Ltd. We have uploaded the investor presentation on BSE and NSE websites and on our website , and I hope you have gone through the same.

Despite challenging environment both globally and in India, the company has reported a significant growth in revenues and profits for the year FY16. Our focus on operational efficiency in value-added products like cotton blended and cotton melange yarn, growth in home textiles division, organic and inorganic growth through capacity expansion both in spinning and home textiles has helped us in achieving these robust numbers.

During Q4FY16, we have recorded revenue of about Rs 558 Crore, which grew by around 17% YoY as compared to Rs 478 Crore in the corresponding quarter of the last year. During the full year FY16, we have recorded revenue of Rs 2302 Crore, a 20% YoY growth as compared to Rs 1918 Crore in FY15.

Sales volume has grown significantly by around 30% to 1,04,000 metric tonne in FY16 as compared to 80,000 metric tonne in FY15. Export sales have grown by 26% to Rs 625 Crore as compared to that in the previous year. We are exporting to around 55 countries across the globe, and have added Japan this year.

EBITDA for the quarter has been Rs 78 Crore, which grew by 13% YoY, full year EBITDA was Rs 311 Crore, a 14% YoY growth. Net profit for this quarter has been Rs 49 Crore, an increase of 78% YoY. For the full year FY16, we have reported profit after tax of Rs 143 Crore, a 24% YoY growth as compared to that in FY15.

The financial results of Q4FY16 and FY16 are inclusive of financial results of the recently-acquired Birla Textile Mills from Chambal Fertilisers for Rs 232 Crore as a slump sale on going concern basis.

In terms of balance sheet, the company has a net worth of Rs 676 Crore and a total debt of Rs 767 Crore. We have quite strong leverage position, with total debt to equity at 1.1 times and interest coverage of 4.9 times. The return on equity and capital employed has been more than 20% consistently for the last three years. The asset turn is 1.43 times, the book value of the company is Rs 413. EPS is Rs 87 as compared to Rs 70 last year and price to book value is 1.4.

I would now request Shri. Khandeliaji to share the business outlook and industry scenario, and then we can start the Q&A session. Thank you.

S.K. Khandelia:

Thank you Dilip. I welcome everybody in this conference, and good morning to everybody. Dilip has given the details of Q4 results and FY16 results. I will mainly touch upon the strategy and the strength of the company and a little bit about future outlook.

Basically, we are a different type of textile mill as compared to most of the spinning mills which operate in India. We are not in commodity products. Though it is called yarn, we are in specialty yarns, dyed yarns, and we are the biggest manufacturer of dyed yarns in the country. We have been diversifying our product portfolio since last ten years year after year. We have been expanding our capacities year after year organically and inorganically particularly for production of value added yarns.

In 2014-2015, we added 31,000 spindles for manufacture of cotton and cotton blended melange and dyed yarns. In 2015-2016, we acquired Birla Textile Mills having 83,000 spindles on slump sale basis effective from April 1, 2015. This year, we are expanding capacity of our Bhawanimandi unit by 35000 spindles, again to manufacture cotton and cotton blended melange and dyed yarn because we are not able to fulfill the demand of our customers with the existing 106,000 spindle capacity to manufacture this product. This is a very value-added product and 100% goes for export of the garments. We are supplying this material to garmenters, hosiery industry etc.

We develop various states, blends and fancy effects on these yarns in a dedicated and full-fledged melange development center. Besides, we are one-stop shop for all types of dyed yarn in the country. We have synthetic, we have cotton, we have modal and we have all other fibers, and we can supply any color, any blend in count range from 6 to 60; and, we have a very dedicated and very good quality customers who regularly buy material from us. We are supplying goods to Raymonds, Siyaram, Page Industries and Gwalior Rayon and so on. 25% of our goods are regularly exported; it includes home textiles, it includes yarn, and is exported to more than 55 countries throughout the globe. Our focus and our strategy have always been to stay away from the commodity and to stay away from the herd. We need to do something niche; so, now we are aggressively focusing in our home textile business.

At present, expansion at a cost of Rs 88.50 Crore is going on, and on completion of this expansion our capacity of home textile division will increase from 2 million meters to 9.6 million meters by the end of this fiscal year, and our expansion of Bhawanimandi for melange yarn will also be completed in this fiscal year. Going forward, we are evaluating various possibilities and opportunities of growth which will come in our way. Since we are consistently generating cash surplus, we are able to focus on growth, and because of this given in these difficult circumstances when the global economic environment was very much challenging and the rural economy was very much stressed due to back-to-back poor monsoon, we have been able to increase our revenues, increase our profits, and this is a test of our strength and resilience. It is the most important thing that in case we can do such good things in such challenging times naturally when the good times come, we should be able to do better.

This year the metrological department of Government of India has predicted good monsoon, there has been increase in salaries of government employees by the Seventh Pay Commission; the pensions of military establishments have been increased on the basis of one rank one pension. These would increase the purchasing power of consumers, and we expect the demand for textiles and other goods will go up and this should benefit us also.

We keep on tracking the developments and changes in fashion in the global arena, and based on that we keep on developing new qualities, and that is the reason we have never experienced shortage of orders and we have been operating at 95%-96% capacity utilization YoY; only 3%-4% goes for regular maintenance, preventive maintenance, and change over etc. There has never been a single hour lost due to any other reason. We are continuously striving to improving our efficiencies, improving value addition etc for sustaining growth. Our plants in all our locations have always been thoroughly modernized, and we do not have any spindle more than 15 years old; so, this is the reason we have energy conservation, good productivity, good quality and besides our policies are always customer-centric. We pay a lot of attention to the requirement of customers. We deeply study what the customer actually needs and we try to produce things as per his requirement. We provide good quality, timely delivery, backed by good after-sales service. These are the strengths on the basis of which Sutlej has been operating, and since these two years have been challenging and still we have been able to perform reasonably good, I hope in coming years with the completion of our expansion and completion of our Home Textile expansion and our strategy to aggressively focus on business of home textile besides the yarn business will definitely add value to our organization.

I am happy to say that during last two years, because of good performance we have been able to improve our dividend. This year, I am happy to say that our Board of Directors has recommended the highest-ever dividend of Rs 13 per equity share for FY16, which translates to around 18% payout inclusive of dividend distribution tax. In this way, the company has consistently improved the dividend payout during the last couple of years. Thank you, Dilip. We can now take up the questions.

- Moderator:** Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Manish Ostwal from Nirmal Bang. Please go ahead.
- Manish Ostwal:** Sir, a very good set of numbers. During this quarter, we have seen a steep decline in interest expense numbers. Is there any one-off in that thing, number one, and secondly what is on account of tax write-back during the quarter?
- Dilip Ghorawat:** Thanks Manish. The company has been earning revenues and improved performances has resulted in upgrade of ratings to CARE AA-/ IND AA- with stable outlook. This has enabled the company to reduce the rate of interest being charged by term lenders. Further the company has substituted WC borrowings to CP,PCFC which has helped us to reduce the interest outgo. Secondly, there was a capitalization of interest of about Rs 3.5-4 Crore on capex as per Indian GAAP. The guidance of interest for next year will be at level of about Rs 50 to 52 Crore going forward. As regards tax outgo, there were certain MAT credit, which we have accounted, based on the assessment orders passed by the tribunal and the CIT to give an appeal order effect. This also has been accounted for. There will be some further MAT for next year and next year based on the assessment completed.
- Manish Ostwal:** Sir, on a full-year basis also, there is some decline in tax rate; last year, we had 22%, this time we have 18.6%; so, for FY17 where the tax rate should settle down?
- Dilip Ghorawat:** We hope that the tax rate will be about at same levels of 18% to 19%, for FY 17 based on assessment completed.
- Manish Ostwal:** Okay. Now coming to the business side, we have seen 25% volume growth in overall business volume, but in terms of realization it has declined, and we are doing some value-added yarn manufacturing also, that has better pricing compared to commodity yarn; so, why it is not reflecting in our EBITDA margin given the better volumes in that segment?
- S.K. Khandelia:** Let me answer it like this. We have been consistent in value-added segment. The margins despite these challenging times have remained more or less at the same level. You see that times have been very challenging last year, but despite that our margins have not dropped; and, as far as value is concerned, you see commodity prices have declined; earlier, Polyester used to be Rs 100 a kg, now it is only Rs 80 a kg, and during the year it was only Rs 73 a kg; so, while our margins remain intact, the overall realization came down. As Dilip has said in terms of quantity, we have done higher numbers but, since the value of the particular per-unit price have declined because of fall in raw material prices, the impact has been coming on the total revenue.
- Manish Ostwal:** Okay and out of this 1 lakh tonne of volume, how much is BTM volume and how much is melange yarn volume, could you give that figure?

- S.K. Khandelia:** BTM volume is about 19,000 metric tonne and around Rs 375 Crore is the revenue.
- Manish Oswal:** Okay; lastly, what is your outlook on overall input price environment for next couple of quarters?
- S.K. Khandelia:** I believe that in the coming quarters, raw material prices are likely to remain stable and will continue to be at the same level at which they are at present. The simple reason is that crude has stabilized which is the basic raw material for Polyester and all types of synthetic fibers. So far cotton is concerned, though of late some prices has increased, but whatever increase was required to take place has already taken place and there is sufficient cotton, till the new cotton comes in; and, because of expectation of good monsoon, I believe that the raw material prices will remain stable.
- Moderator:** Thank you. Next question is from the line of Dimple Kotak from SKS Capital. Please, go ahead.
- Dimple Kotak:** Sir, what is the capex for the capacity that you are expanding from 4.6 million meters to 9.6 million meters; so, what is the capex you are doing for that.
- S.K. Khandelia:** Rs 88.50 Crore
- Dimple Kotak:** And Sir, is that funded from equity and debt?
- S.K. Khandelia:** Yes, about one-thirds is equity and that is internal accruals and balance is debt under TUFS, because in TUFS, the government gives 5% interest subsidy.
- Dimple Kotak:** Sir, coming on to your realization part, if you could give us what was the realization in Q4 and in the previous quarter and in last year the same time?
- Dilip Ghorawat:** The realization for FY 16 was about Rs 206, December was Rs 204 and FY15 was Rs 219.
- Dimple Kotak:** And Sir, the same thing for the full year FY16 and FY15?
- Dilip Ghorawat:** As I said, FY15 is Rs 219; FY14 is Rs 222.
- Dimple Kotak:** Okay, so the realizations have come down. Sir, so going ahead, what is your outlook? If you could throw some light on how realizations would behave?
- S.K. Khandelia:** As I said that the raw material prices are likely to remain at a stable level. We believe that yarn prices, average price of the yarn in FY17 is likely to remain at the same level as that of the FY16.
- Dimple Kotak:** Sir, what is the average price right now in FY16?
- S.K. Khandelia:** That is Rs 206.

- Moderator:** Thank you. Next question is from the line of Dhaval Shah from Girik Capital. Please, go ahead.
- Dhaval Shah:** Sir, I just have a basic question first. What is the difference between cotton melange yarn and a regular cotton yarn?
- S.K. Khandelia:** Yes, you see cotton melange is the ad-mixture of grey as well as dyed fibers. Dyed fibers and grey fibers can be of cotton, one part may be of cotton, another part may be of synthetic or other part maybe of the viscose or modal or anything; so, it is an ad-mixture of grey and dyed fibers in different percentages as per the yarn product application.
- Dhaval Shah:** Okay. So the end application for this would be?
- S.K. Khandelia:** Basically, they are hosiery garments for exports
- Dhaval Shah:** Okay. So right now out of our 3.5 lakhs spindle capacity, we are currently one lakh in cotton mélangé dyed yarns.
- S.K. Khandelia:** Yes and the current expansion is also for cotton mélangé and cotton blended dyed yarn. As we are fully booked, we have been experiencing over-order position and we have not been able to fulfill the demand; that is why we are expanding.
- Dhaval Shah:** So at the beginning of the call you mentioned you are biggest in India in dyed yarn capacity.
- S.K. Khandelia:** Yes, we manufacture polyester viscose dyed, cotton mélangé and cotton blended dyed yarns. We are one of the major producers and exporters of polyester viscose dyed yarns; also, 100% polyester dyed yarn, acrylic dyed yarn, polyester acrylic dyed yarns and so many types of dyed yarns. We basically concentrate on dyed yarn manufacturing.
- Dhaval Shah:** In the presentation, I am on slide #26; so, this dyed yarn would fall under which category – man-made fiber or cotton mélangé?
- S.K. Khandelia:** You see dyed yarns can fall in both the categories. You see, if it is polyester viscose, polyester modal, polyester acrylic, it will fall under man-made yarn, if the cotton portion dominates or if it is 100% cotton, it will fall under cotton.
- Dhaval Shah:** Okay, so dyed yarn would mean it has, you add some color?
- S.K. Khandelia:** Yes, we dye the fiber whether it is cotton or polyester. We dye in our dye houses, we have big dye houses and then after dyeing those fibers we mix them in different proportion as per the end application and the final shade of the yarn.

- Dhaval Shah:** Okay, so now in that case I understand correctly, in terms of your total raw material your man-made fiber will be higher percentage of your total raw material consumed?
- S.K. Khandelia:** Yes
- Dhaval Shah:** Okay, so now since the prices have gone down, when you compare to FY14 and FY16, have you seen margin increase because of a fall in Polyester prices and also because you made dyed yarn as lot of chemical prices have also gone down?
- S.K. Khandelia:** No, we have not seen any improvement in the prices, we have seen stable margins, and the reason is that the condition of the market internationally and domestically was challenging. The only thing which benefited us was that we could sell our entire production whereas some of the companies might have not been able to utilize their capacity fully.
- Dhaval Shah:** Okay, so you are seeing this slack in the business scenario since how long, because at least during past two years you have been slow on revenue growth?
- S.K. Khandelia:** I think this year at least for domestic consumption, I am hopeful and positive because of expectation of a good monsoon particularly because in India still lot of demand comes from rural areas and then we are going to have capacity expansion for value-added products as there is good demand for cotton mélange and cotton blended dyed yarn.
- Dhaval Shah:** So, majority of yarn which you make get converted into fabric and the end uses is in India itself?
- S.K. Khandelia:** No, about 25% of production is being exported. It has three types of application – majority in weaving suiting and another is in garments as I said to you, T-shirts, ladies wear and other things; and third is the industrial application. Some of the yarns which we manufacture have industrial application also like in carpets and other things.
- Dhaval Shah:** Okay. So right now total 25% of your business is export?
- S.K. Khandelia:** Yes. In home textile also we have 25% exports.
- Dhaval Shah:** And going forward, what is the plan in terms of focus on export increase?
- S.K. Khandelia:** See as a matter of regularity, we will always maintain export around this level, say 20% - 25%, and rest depends upon price difference between domestic market and international market. Suppose, if the international market is good, our volume can increase 30% something like that; so, it depends upon the market condition in domestic and international markets.
- Dhaval Shah:** And, why are we expanding on home textiles?

- S.K. Khandelia:** This is very high-margin business and since in spinning we already have a sizable presence, we have identified another line to grow and that is why we are focusing on this segment aggressively.
- Dhaval Shah:** So, in this, for weaving you will be giving outside?
- S.K. Khandelia:** No. We have put up our own brand new looms.
- Dhaval Shah:** Okay, so in home textile, what will you be manufacturing?
- S.K. Khandelia:** Curtains and upholstery mainly.
- Dhaval Shah:** So, in that also 75% is domestic.
- S.K. Khandelia:** As of now, but going forward, we are trying to have 50-50 ratio; but, it may take a year or two.
- Dhaval Shah:** And, no branding in that?
- S.K. Khandelia:** Mostly it is going to through wholesalers, dealers and distributors as of now and there is no plan to go for retail.
- Dhaval Shah:** Okay. And, what sort of margins you said you make in it?
- S.K. Khandelia:** It is almost double that of the yarn.
- Dhaval Shah:** So, approximately upwards of 25%?
- S.K. Khandelia:** Say, if it is 13% to 15% in case of yarn, it is 25% to 30% in curtains and upholstery.
- Dhaval Shah:** Okay. And, sir just a last question, so currently debt is how much on the book?
- S.K. Khandelia:** You see long-term debt is 0.75% of our equity.
- Dhaval Shah:** Absolutely, how much it is?
- Dilip Ghorawat:** Dhaval, it is Rs 767 Crore total; and, out of that long-term will be about Rs 550 Crore.
- Dhaval Shah:** And, is this full Rs 550 Crore under TUFS.
- S.K. Khandelia:** Only Rs 100 Crore of term loan recently we have taken for acquisition of BTM is not under TUFS and balance is all under TUFS.

- Dhaval Shah:** Okay. And, that has 7% interest rate ?
- S.K. Khandelia:** Yes please.
- Dhaval Shah:** So, do we have any plant in Gujarat?
- S.K. Khandelia:** Yeah, we have a plant at Vapi, Bhilad, which is getting state benefits; also, 5% so & all expansion is virtually at zero interest cost; and, coming to cotton mélangé dyed yarn , I would also like to add that we are also supplying to Page Industries for *Jockey* brand and they are taking mostly from us, and we have a backlog of 50 days in cotton mélangé. We have an order book of 50 days in cotton mélangé dyed yarn..
- Dhaval Shah:** Okay. So any margin guidance you will be giving to the investors?
- Dilip Ghorawat:** See, as Mr. Khandelaji said, we are going for expansion in phases and these capacities is likely to commercialize in Q4 FY16-17. Secondly, we are developing our melange development center. We are strengthening it further to manufacture various types of melange yarns so that we become a niche player. We are translating some of our existing spindles to cotton mélangé dyed yarn. If you see our Q3 versus Q4 spindles, it was 96000 spindles; it is now 106,000 spindles. 10,000 spindles increased in cotton mélangé, which will further boost our revenues. In BTM, we are doing debottlenecking wherein we have added value-added products, which shall help us to increase our EBITDA. So going forward, we are just waiting for good monsoons, the Seventh Pay etc will trigger demand boost for the textile sector in which Sutlej will be a part of the same.
- Dhaval Shah:** So next year, we assume around 15%-16% EBITDA?
- S.K. Khandelia:** It is very difficult because we work in a very volatile situation. You know crude prices goes up and down, external debt goes up and down, there are so many factors, but we expect the improvement.
- Dilip Ghorawat:** We have given the indicators, which should suffice.
- Dhaval Shah:** Sir, debt repayment – anything coming up this year?
- Dilip Ghorawat:** Each year we have around Rs 100 Crore of debt repayment in FY 17 and in next four years around Rs 100 Crore each year. In FY16 we had free cash flows of about Rs 80 to 100 Crore so, going forward we do not foresee any problem in repayment of debts.
- Dhaval Shah:** Will you be refinancing this with new debt?

- Dilip Ghorawat:** No. We do not take any new debt for refinancing as we do not require funds for repayment of debt due to generation of internal accruals. It will not be refinanced and it will be fully paid up from the cash accruals of the company.
- Moderator:** Thank you. Next question is from the line of Abhilasha Satale from First Global. Please go ahead.
- Abhilasha Satale:** Sir, I would like to know who are your major competitors in melange yarn.
- S.K. Khandelia:** You see we are the biggest as of now in India; and, in melange yarn – Winsome Textile and Vardhman are also making melange yarn; so, these are two-three companies. And, the type of melange which we manufacture is being manufactured by three-four companies only namely Winsome Textile, Vardhman Textiles, and now Trident has also started above 25000 spindles and then RSWM is also having about 70000 spindles. Other melange players make commodity type of melange, which are standard 15-85 brands or something like that, but we are not in that category.
- Abhilasha Satale:** Sir, how big is the industry? Can you give any specifics like how big it is in terms of spindlage or value terms?
- S.K. Khandelia:** I do not think we have more than 350,000 spindles in India but in China one company Hafu is having 12,00,000 spindles; so, scope is big but it requires very dedicated research and development which we have established.
- Abhilasha Satale:** Sir, you said about 35000 spindles expansion for melange yarn how much is capex for that?
- S.K. Khandelia:** Rs 270 Crore
- Abhilasha Satale:** How is it funded?
- S.K. Khandelia:** About Rs 200 Crore loan under TUFS and Rs 70 Crore internal accruals.
- Abhilasha Satale:** You said both the facilities would be commencing in Q4 FY17, right?
- S.K. Khandelia:** Yes, because the work is already going on. We have already spent about Rs 65 Crore on expansion on cotton melange and cotton blend dyed yarn capacity. Order for all the machines have been given, so most of the machines will start coming at the end of second quarter and in the third quarter of this FY 17, and in the fourth quarter this facility will be fully commercially operational. Similarly, in case of home textiles, we are doing it in phases. The machines are continuously coming in phases and the project will be completed in Q4 FY17.
- Abhilasha Satale:** Sir, in FY17 how much volume growth we are looking at?

- S.K. Khandelia:** You see because the expanded capacity will be coming in the last quarter of the year, we expect about 7% - 8% increase in volume growth.
- Abhilasha Satale:** And that will come from?
- S.K. Khandelia:** Increase in efficiency, product mix, niche market, increase in Cotton Mélange Spindles, Expanded capacity in phases in Home Textiles during FY 17 and Expansion Capacity of Cotton Mélange at RTM, Bhawanimandi.
- Abhilasha Satale:** Existing capacity?
- S.K. Khandelia:** Volume growth will come by increase in efficiency, product mix, niche market, increase in Cotton Mélange Spindles at CTM, debottlenecking at BTM, Expanded capacity in phases in Home Textiles during FY 17 and Expansion Capacity of cotton mélangé and cotton blended dyed yarn at RTM, Bhawanimandi.
- Abhilasha Satale:** Okay. So in Q4, you will be able to ramp up that capacity?
- S.K. Khandelia:** Yes
- Moderator:** Next question is from the line of Perna Jhunjhunwala from B&K Securities. Please, go ahead.
- Perna Jhunjhunwala:** Thank you for the opportunity. Congratulations on a good set of numbers, Sir. I wanted to understand the margin profile of the company – first in terms of difference in melange yarn and normal PV yarn dyed or a cotton yarn and second I wanted to understand BTM versus STIL margin profile. And, we were talking earlier about upgrading BTM unit to high value-added product, so where are we in terms of margin there and how are we projecting it to improve over the next two three years?
- S.K. Khandelia:** In case of BTM, we were having 43000 spindles out of total 83000 spindles mainly on grey cotton yarn that we are diverting to cotton and cotton blended yarns and the present margin of about 8% EBITDA level is likely to grow in a year or two to 11%. You see in case of PV yarn, the margins are comparatively less as compared to melange yarn because in case of PV yarn there are many manufacturers, in case of dyed even there are 10-12 manufacturers, but in case of mélangé, the number of manufacturers are less; and, since melange requires lot of sampling, each order is different; so, because of our strength in sampling, the melange yarn margins are better as compared to PV yarn, but it depends time to time because of the rate of the cotton market conditions and the price of the final product of the garments requirement in USA, European Union ,exchange rate etc., there are so many sectors but generally margins in melange are definitely much better than the PV yarn.

- Prerna Jhunjunwala:** Okay, so if I understand this properly, why are we moving BTM capacities to melange yarn only instead of diverting into dyed?
- S.K. Khandelia:** No you see it is not easy it is not easy to divert existing capacity to all types of yarn. Melange yarn requires specific plant design which has to be done, and in existing plant such type of facilities cannot be treated; so, whatever is possible say in case of 100% grey cotton yarn, we are diverting it to different type of melange and different type of value-added products with the cotton. So, it will have better margin than the 100% grey cotton yarn and that is how the margin will improve from 8% to 11% in the coming years.
- Moderator:** The next question is from the line of Ujwal Shah from Quest Investment Advisors. Please, go ahead.
- Ujwal Shah:** Thank you for taking my question, Sir just needed a brief outlook about the global yarn scenario prevailing right now, and how do you see the prices of the cotton yarn going forward for FY17?
- S.K. Khandelia:** So far cotton yarn is concerned, the prices largely depend upon the price of cotton and the China factor is very important factor – how is the Chinese demand for the yarn? Now that China has started releasing their cotton, I do not see very big upside in cotton yarn prices in the coming quarters. Grey cotton yarn basically is a commodity; so, production capacity is actually more than requirement throughout the world. In some countries, some capacity goes out of production temporarily then some capacity comes in; so in case of grey cotton yarn, until and unless global economic conditions improve to a large extent, I do not expect big increase in grey cotton yarn prices or margins. You can say price may increase if cotton rate increases, but the margins will remain in grey cotton yarn under pressure, this is my view. In case of value-added yarns, of course, stable margins are maintained because after all there has to be a delta between the margins of grey cotton yarn and other yarns but margin level remaining stable more or less because supply pressure is not there, demand goes down because in such difficult times everybody tries to produce niche garments, so demand for such products goes up.
- Ujwal Shah:** So, you expect stable prices for this coming year?
- S.K. Khandelia:** I expect stable prices because Polyester is stable, international cotton prices are more or less stable; so, I expect stable prices in coming years.
- Ujwal Shah:** Sir, can you just briefly give us a break-up of your volumes of one lakh four thousand metric tonne in terms of cotton yarn, BTM mélangé and all?
- Dilip Ghorawat:** 25% is mélangé yarn; balance is all other yarns .About quantity, going forward FY17, as we are changing the product mix of BTM and due to our ongoing modernization there will be an increase in efficiency also. Presently it is around 95%, we could go to further 96%. We feel that there will be also

volume growth on the existing business, plus there is a capacity expansion coming in; so, that also will give us a good support. The home textile expansion is into various phases, it is not into one go; jacquard looms are getting installed in July, and it has already arrived in India. It will be installed in June-July so that some capacity increase will come during this year. Hence there will be a good set of numbers for FY17, plus we are also hoping that monsoon and Seventh Pay Commission will further trigger demand for textiles.

- Ujwal Shah:** Right Sir. So what is the current utilization in home textile?
- Dilip Ghorawat:** It is about 83%.
- Ujwal Shah:** Okay Sir and at peak what can we go to?
- Dilip Ghorawat:** 90% to 92%.
- Ujwal Shah:** Okay Sir, and this addition in home textile that we are seeing, so how do we plan to increase our exports and how do we target this export markets for home textile?
- Dilip Ghorawat:** First of all, we have strengthened our designs. We are now doing our own designs. We have recruited a designer and his team six months back which is giving good results. We have appointed some new marketing people for focus on US, the Middle East and trials, they have visited showrooms, they have visited other countries and so trials have started. What type of customer requirement is coming in, so we are trying to see what we can further add value to that. This is a very exciting product for the company, as like spinning, now we are more focused in home textile, which will further strengthen and boost our revenues and profitability, top line and bottom line.
- Ujwal Shah:** Sir, in terms of utilization for this new capacity that is coming in, how do we see it panning out over next two-three years?
- S.K. Khandelia:** No you see after initial three to six months, it will be fully utilized; even from day one, it may be 5%-10% here and there because of labour training and other things, but after six months or so it will be fully normal utilization 92%- 95%.
- Moderator:** Thank you. Next question is from the line of Girisha Saraf from Ambit Capital. Please, go ahead.
- Girisha Saraf:** Sir, could you please throw some light on who are your clients domestically and internationally for home textiles?
- S.K. Khandelia:** You see, in case of home textiles, Al Guthmi is one of the big showrooms in Dubai and other Middle-East countries. Since we have started this line only since last one and a half years, we are still in the

process of developing good customers and good wholesalers; so, at present we have appointed many wholesalers throughout the country; in each state there is one wholesaler. In case of exports, at present our major business is in the Middle East; now, we have appointed some marketing people for USA and we will be fixing wholesalers and dealers there for sales in US, which is a big market for home textiles.

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

Vikas Rajpal: Sir, my question is regarding the BTM that you had acquired around Rs 232 Crore. So, could you give me a break-up of the acquisition like how much you paid for the spindles and how much you paid for the land?

Dilip Ghorawat: We have acquired BTM on a slump sale as a going concern basis effective from 1st April 2015.. The total amount consideration was Rs 232 Crore, out of which Rs 105 Crore was term loan and the balance was from internal accruals.

Vikas Rajpal: Okay Sir, but I am asking about the break-up of how much you paid for like how much you value this spindle because the spindles are relatively like around 15 years old, right?

Dilip Ghorawat: The spindles are around 10 years old. We have done a fair value of the assets, based on that it has been booked, there is no goodwill created.

Vikas Rajpal: Okay Sir, there was no goodwill and thus you paid only for the cost.

Dilip Ghorawat: Yes, this includes current assets and liabilities, which has been done at book value.

Vikas Rajpal: Sir, because it becomes very difficult to actually value because what happens is if I just take out a per spindle cost, it comes out to around Rs 28000 if I consider the whole value then, but if you go and set up a new plant and you put in new spindles, per spindle you spend around Rs 35000. So, I was just wondering why not set up your own facility rather than buying a ten-year old machine for approximately the same price?

S.K. Khandelija: This type of production facility will cost about Rs 50,000 per spindle. The simple reason is it is not only spindles.

Vikas Rajpal: Yes, I know there is civil work also.

S.K. Khandelija: It has a very huge housing colony for the staff and the workers, it has the dye house, it has 4 megawatt Wartsila captive power plant and another 6 megawatt Kirloskar power plant; so, it is not

only the spindles, number one; second, as you mentioned, it is not 15 years old. The simple reason – 15 years back only 26000 spindles were installed; so, another 43000 were installed seven years back only, and remaining were installed in-between before 2007 say 2004, 2005 something like that; so, the average life of the spindles is only ten years, and there has not been any major change in the technology or anything after that. There have been small changes only because it is planned that way and construction it depends upon the type of construction, type of facilities even the dye house itself and ETP itself requires about Rs 25 Crore. We have not segregated with the land and other things; we have taken a lump-sum then based on the fair market valuation and depending upon the valuer. Valuer's price we have segregated between different assets ; there is no good will at all.

- Dilip Ghorawat:** Rajpal you can just call me off-line, I will share with you the details..
- Moderator:** Thank you. Next question is from the line of Vaibhav Vaid from Motilal Oswal. Please, go ahead.
- Vaibhav Vaid :** Hi Sir. Can you tell me the capex amount for this year and next year?
- Dilip Ghorawat:** For FY17 – as we said Rs 200 Crore will be for RTM expansion, about Rs 60 Crore will be home textile expansion and about Rs 30 to 40 Crore would be for our modernisation programs on-going which we always do to improve the efficiencies and upkeep time. For FY18 – we have regular modernizations. We are also evaluating growth both organic and inorganic growth in textile sector only. Once we finalize the same, then we will go to the board, take approval, inform the stock exchange, and then you will come to know.
- Vaibhav Vaid :** Okay. So roughly would it be around Rs 200 Crore for next to next year also?
- Dilip Ghorawat:** No, we cannot tell that now.
- Vaibhav Vaid:** Sir could you tell me the repayment of debt for next two years?
- Dilip Ghorawat:** Around Rs 100 Crore each year.
- Vaibhav Vaid :** Okay, and Sir what would be the difference in realization on cotton and mélangé yarn the grey cotton yarn ?
- Dilip Ghorawat:** I will give you a bandwidth – what we are selling at Rs 250 to 350 per kg depending upon the count. it can go up to as high as Rs 400 per kg depending on the count and what quality the customers purchase.
- Vaibhav Vaid :** Sir, taking BTM out last year what would be your growth in the standalone company Sutlej?
- Dilip Ghorawat:** The growth including home textile also will be about 8%.

- Vaibhav Vaid :** Sir at peak revenues, how much home textiles would we produce at peak revenues after the capex that we are planning to?
- Dilip Ghorawat:** See, I am hoping that our price realization in home textiles should go up based on the designs what we are launching in the market, and based on that capacity of around 80% - 90 % capacity, we feel that it should be in the range of around Rs 200 – Rs 225 Crore.
- Vaibhav Vaid :** Sir, what would be the margins we are looking at currently in home textiles ?
- Dilip Ghorawat:** As Mr. Khandeliaji said, EBITDA levels between 20% to 25%.
- Vaibhav Vaid :** Sir, in the yarn business these would be around 15% to 20%, right?
- Dilip Ghorawat:** Well it depends on various segments, mélange could be higher,PV could be lower so it is average, if I talk of yarn business in average it shall improve due to about 10,000 spindles getting converted into Cotton Mélange yarn, debottlenecking at BTM and Capacity Expansion at RTM to manufacture value added Cotton blended and Cotton Mélange Dyed yarns
- Moderator:** Thank you. Next question is from the line of Nishna Biyani from Prabhudas Lilladhar. Please go ahead.
- Nishna Biyani:** Sir, I just wanted to understand do we have any stated cotton policy? And, I would also like to have the inventory split between cotton and finished good as at end March.
- S.K. Khandelia:** Our cotton policy depends upon the expectation of the market behavior of the cotton depending upon consumption and international position. We keep on evaluating it, and depending upon that we decide about our market cotton policy time to time. For example, in this year season time, we expected that the prices are not going to increase much and still there will be little bit improvement, so we purchased little extra cotton of around 4 to 5 months , but these days cotton is available throughout the year domestically as well as internationally. So, it is not like earlier times when one used to hoard cotton for six to eight months, it is not like that now.
- Nishna Biyani:** So, your working capital intensity is expected to go down at least for this year?
- Dilip Ghorawat:** Yes.
- Nishna Biyani:** Sir, can you give me Rs 430 Crore split between cotton and finished goods?
- Dilip Ghorawat:** Nishna, I will give it to you later on.

- Nishna Biyani:** Sir, I also had couple of bookkeeping questions. One, when I see your QoQ, your depreciation is down, and any reason for that?
- Dilip Ghorawat:** What has happened is, we had valued assets of BTM at a higher cost. The auditors said that useful life needs to change based on Chartered Engineer's certificate; so, we revised it. Depreciation was lower for BTM to about Rs 1.5 to 2 Crore. That is why it has reduced for this quarter, but on an average it will be about Rs 80-84 Crore.
- Nishna Biyani:** Sir on the tax rate, to be very frank, I have not understood the kind of write-back we have taken for 2016. We have guided over the next two years again you know between 18 to 20% range of tax rate. So, can you just make us understand what was MAT credit which you had earlier and which you did not claim earlier?
- Dilip Ghorawat:** The Company is getting certain subsidies, which we while filing our returns we have treated the same as capital receipt, the Income Tax Dept did not agree. We went in appeal. We won. Income Tax Dept appealed in Tribunal and we won in Tribunal. Now there is a Supreme Court order that it has to be treated as capital receipt. So, whatever assessment has been completed and ordered received on hand as on March 31, 2016 only those MAT Credits has been accounted for.
- Nishna Biyani:** That would be for which financial period?
- Dilip Ghorawat:** This will be for last three years. FY 2013-2014 and 2014-2015 assessment is yet to be completed and assessment for FY 2011-2012 is under appeal, which we hope this year and next year the assessment and appeal will be decided in our favour based on the Supreme Court order and assessment completed of earlier years.
- Nishna Biyani:** Sir, even in the home textile segment when we had a chat, you were referring to the kind of asset turn is between say 1.5 to 2 easily; so, when I look at the kind of capex which you are envisaging say almost Rs 90 Crore capex and FY18, Rs 225-250 Crore would not that be on a lower side?
- Dilip Ghorawat:** I said 1.4 times; so, Rs 88 Crore plus we have some existing assets. So, if I take it together, that is why we said around Rs 225 Crore, and it is matching to 1.4 times..
- Moderator:** The next question is from the line of Dimple Kotak from SKS Capital, please go ahead.
- Dimple Kotak:** Sir, what is the free cash flow on books as now?
- Dilip Ghorawat:** As on March 2016, it is around Rs 80-100 Crore.
- Dimple Kotak:** Sir, could you please give me a break-up in your debt, long term and TUF?

- Dilip Ghorawat:** Out of Rs 550 Crore, Rs 100 Crore is non TUFS, balance all is under TUFS.
- Moderator:** Next question is from the line of Manish Ostwal from Nirmal Bang, please go ahead.
- Manish Ostwal:** My question on your capital raising plans any timeline we have decided for that?
- Dilip Ghorawat:** .We shall take a call at an appropriate time.
- Moderator:** Ladies and gentlemen, that was the last question. I now hand the conference over to the management for their closing comments.
- Dilip Ghorawat:** I would thank everybody for participating. This is our first conference call. We hope to do better in years to come based on capacity expansion being undertaken by the Company.
- S.K. Khandelia:** Thank you very much for all those who have joined us for this conference call and I will only sum up by saying that based on our strategy and policies I look that we have a reasonably good future and we will continue to grow as we generate cash surplus year after year. Thank you very much.
- Moderator:** Thank you very much Sir. Ladies and gentlemen on behalf of Axis Capital, that concludes this conference call, thank you for joining us and you may now disconnect your lines.