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Q2FY16 Conference Call Transcript

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Management:

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Moderator:

Ladies and gentlemen, good day and welcome to the Q2 FY2016 results call of GHCL Limited hosted by Emkay Global Financial Services. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*"then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rohan Gupta, Research Analyst of Emkay Global. Thank you and over to you Sir!

Rohan Gupta:

Thank you. Good evening ladies and gentlemen for logging in the conference call of GHCL. From management, we have Mr. Jalan and Mr. Raman Chopra. Good evening gentlemen. As usual first I will request you if you can share our Q2 FY2016 and H1 FY2016 results performance in a brief and also if you can share some light on the industry perspective and then we can follow it up with Q&A session Sir.

RS Jalan:

Good evening ladies and gentlemen. On behalf of GHCL, I welcome you all to this call. I have with me Mr. Raman Chopra, our CFO and Executive Director Finance. Some of the participants may be joining us for the first time, so I would start with the brief introduction.

GHCL is operating in two business verticals that are inorganic chemicals and textiles. Our total topline last year was Rs.2400 Crores. I am talking about 2015. Inorganic chemical contributed 60% and balance 40% came from textiles. Our soda ash facility is located in Gujarat and textile division is located in Gujarat and Tamil Nadu. This has been a phenomenal quarter for us with topline growth of around 11% year-on-year basis. EBITDA growth is 35% and phenomenal growth of 66% in profit after tax contributed by growth in both business segments inorganic chemicals and textiles.

Now, I would like to take you through the soda ash industry. With our record production of Rs.1.91 lakhs during the quarter we have achieved highest capacity utilization of 91% surpassing Q1 production. This has led to a revenue growth of 9% year-on-year basis and our distinct cost advantage in terms of captive control of raw material with strong focus on quality as well as high efficiency enabled us to enjoy highest margin in the soda ash industry.

Our operating excellence has led to margin improvement from 27% to 30% year-on-year basis leading to 21% in EBITDA. This remarkable performance is despite slowdown in the demand growth in soda ash industry. Globally there has been a sluggish demand growth of 2% to 2.5% against our earlier estimates of 3.5% to 4%. This has been mainly due to recent slowdown in China. There has been major concern over Chinese economy and its impact in India. Slow internal demand in China is forcing them to look for export options; however, currently their major focus market in South East Asia are Indonesia and Bangladesh.

Owing to lower demand growth and lower container freight, international prices have softened recently. In the domestic industry as well, the industry is experiencing a temporary slowdown with the growth rate of 2.5% in H1 2016, compared to projection of 5% as stated earlier, which is mainly impacted due to lower growth in detergent sector and poor rural income growth. Due to this slackness, the inventory days have gone up from two days to seven days. Looking at the current scenario, we believe there can be some price softening; however, we are confident that the saving on cost of key input primarily coal and coke would be able to substantially absorb such impact. Our capacity expansion of Rs.1 lakh metric tonne at the cost of Rs.375 Crores is progressing as per schedule and will be accomplished by FY2017 end.

In textile, as some of you are already aware, GHCL is also one of the largest integrated textile manufacturing industry in India with a focusing capacity of 36 million meter and weaving capacity of 12 million meter, integrated with a spinning capacity of 175000 spindles in Tamil Nadu and 3320 rotors. We produce 100% cotton and blended yarn, this quarter the segment reported a very healthy growth of 13% on a year-on-year basis. This has been on the back of higher export volume, better utilization and new client additions. Our major export market constitutes US 71% followed by Canada 15%. As communicated earlier, we are focusing on improving product mix, changing customer profile and driving capacity utilization to improve margin in the segment. Half-yearly FY2016 as compared to 70% of the last year of utilization, our capacity utilization this year is 83% and we expect this to continue this trend.

We are glad to share that this quarter the EBITDA margin from this segment has improved to 13% compared to 7% in Q2 FY2015. This is despite the challenge in spinning sector with significant drop in cotton and yarn prices due to change in the Chinese cotton policy. We however, expect to continue this momentum over the remaining two quarters. Recently we have got some new orders, the dispatch against which would begin only next year and therefore providing a major surge in the volume in the FY 2017. We are actively investing around Rs.150 Crores in the segment over two, three years with prime focus in expanding in the green energy to reach to 25 megawatt wind energy which will meet 55% of the power requirement in spinning and enhancing our stitching capability to 30 million meter per annum.

Our strategy going forward is to commit ourselves to growth capex along with a green energy initiative to focus on effectively reducing our power cost. In addition to this, we would continue our emphasis on deleveraging ourselves. This has resulted in an improvement in the ratio of debt equity, which was 1.72 in March 2015 to 1.53 in this quarter, and we are confident that in two years' time will be able to bring this two below one. Now, I would request Mr. Raman Chopra to run you through the Q2 FY2016 results.

Raman Chopra:

Good afternoon everybody. With the note of thanks to Mr. Jalan, I welcome you all on today's call. I would now present you, a quick recap of a very strong quarter two, second quarter performance, which is ended on September 30, 2015 on a standalone basis.

Our revenue for the quarter has increased from Rs.593 Crores to Rs.657 Crores, registering a growth of 11%. Our EBITDA has grown by 35% that is by Rs.39 Crores from Rs.112 Crores in September 2014 quarter, to Rs.151 Crores in this quarter. Our EBITDA margin for the same period have increased by 400-basis points from 18.9% last year, same quarter versus 22.9% in quarter two of this year.

Profit before tax has shown a strong growth of 70%, which is up by Rs.35 Crores to Rs.87 Crores versus Rs.51 Crores last year. Our PAT has increased by Rs.20 Crores from Rs.31 Crores in Q2 FY2015 to Rs.51 Crores, this quarter achieving a significant growth of 66%.

On a segment wise insight, both the businesses have done exceedingly well in the current quarter and posted a robust growth. In the inorganic chemical segment, the revenue has grown from Rs.343 Crores to Rs.374 Crores during the quarter with the growth of 9%. This has been made possible due to our strong foothold in the market resulting in higher sales volume.

Our volumes in soda ash has increased from 1.59 lakh tonnes to 1.7 lakh tonnes which is an increase of 11000 tonnes with the stable pricing compared to corresponding quarter. EBITDA has increased to Rs.113 Crores during the quarter inorganic chemical segment as compared to Rs.94 Crores in quarter two of last year. The increase in EBITDA is mainly contributed by increased an EBITDA margins which is up by 280-basis point that is from 27.5% last year to 30.3% in this year which is mainly owing to lower operating cost. In our textile segments also contributed significantly with the topline registering a growth from Rs.250 Crores in Q2 FY2015 to Rs.284 Crores in current quarter registering a growth of 13%.

Our exports during the quarter has increased a robust growth of 40% from Rs.135 Crores to Rs.192 Crores in the corresponding quarter. EBITDA in quarter 2 FY2016 has also shown robust growth of 108% increasing by Rs.20 Crores from Rs.18 Crores last year to Rs.38 Crores this year. EBITDA margin has increased from 7% to 13% in the textile segment for the same quarter.

On the balance sheet side, our networth has improved from Rs.770 Crores to Rs.882 Crores. Our gross debt stood at Rs.1348 Crores thus lowering a debt equity ratio from 1.72 at the end of FY2015 to 1.53 at the end of Q2 FY2016 whereas the long-term debt has reduced from Rs.784 Crores to Rs.732 Crores that is a reduction of Rs.52 Crores. The increase in overall debt is mainly on account of increase in short-term borrowing from Rs.454 Crores to Rs.536 Crores with the corresponding Rs.90 Crores increase in our working capital deployment.

Now, I would like to open the house for discussion and any questions that you may have. Thank you very much.

Moderator:

Thank you very much. We will now begin the question and answer session. The first question is from the line of Saket Kapoor from Kapoor Company. Please go ahead.

Question and Answer Session

Saket Kapoor:

Good evening friends. Sir, just coming to first the segment wise reporting, “yeh dek rehen hain ki, apne jo, is quarter main, jo inorganic chemical segment hain,” “we have seen in this quarter the inorganic chemical,” therein we have seen dip in margins if you compare it with the June quarter, wherein we took shut down also, but still the margins were at around 31%. If we take the net margins, but now the margins in the inorganic segment is down to 27%. Sir, what is the probable reason and what was the softening in prices in the soda ash segment as you had mentioned that globally the prices have softened?

RS Jalan:

Let me answer this question for the margin first. Margin as we know that the soda ash industry is a cyclical industry always historically the first quarter versus the second quarter, the margin in the second quarter is always lower, because of the rainy season. In the rainy season, two things happen. One is overall your cost of production goes up, because you need to have a better mix of the coal and lignite and such things. Historically, if you look at the second quarter, the cost of production is always on the higher side. If you look at quarter one, last year our margin was 32% and Q1 2016 it was 34%. Now if you look at Q1 2015 versus Q2 2015, the margin dropped from 32% to 27% that means almost 5% drop was there. Now, if you look at this year, it has dropped only from 34% to 30% that means there is only 4% drop. So historically second quarter is always because of the seasonality, margins are always lower.

Saket Kapoor:

Going forward the scenario is likely to be changed. What should be then the margins we should expect in the soda ash business?

RS Jalan:

Mr. Saket for us to giving guidance on the number will be difficult.

Saket Kapoor:

From the band if you could get then the seasonality factor will be phased out for the third and fourth quarter?

RS Jalan:

Like I said, if you look at our margin in the Q1 2016 was 34% and Q2 2016 30%. I would say that it should be in this range only. It should be in the range of I would say Q1 at least. Because like I said even the third quarter and fourth quarter is the best quarter, fourth quarter is the best quarter for the industry historically if you look at. . So therefore I would say the best quarter is four then the third, then the first than the last is the second one, so you can take on that basis what the numbers will be.

Saket Kapoor:

Now on the pricing scenario for soda ash Sir, if you could comment something?

RS Jalan:

Like I said, Mr. Saket , slight softness is there in the market, but if I look at the import at this point of time or look at the demand, we are seeing a drop of roughly around 2% in the demand which can be recovered also, because the season of this July- September was a rainy season because of that rural demand is on lower side. So, may be this demand can recover, but if suppose this does not happen, we do not see a major drop in terms of overall, may be hardly 2% drop can be there in the overall demand. So you can translate that and slight softness can happen. But I do not see too much of drop in the price.

Saket Kapoor:

What has been the softness for this quarter if you could quantify that?

RS Jalan:

This quarter it is almost flat.

Saket Kapoor:

Quarter-on-quarter it is flat?

RS Jalan:

If you look at the realization, the realization is almost flat.

Saket Kapoor:

Going forward, we can see some softening due to lower demand?

RS Jalan:

Slight, you can take.

Saket Kapoor:

You have not mentioned the volume for the sodium bicarbonate and salt part?

RS Jalan:

I have not said this time, but before I answer that question, let me add one more thing. Even I am seeing, the raw material prices are also slightly softening, so may be some drop in the realization can be covered by the lower price of the raw material as well. The raw materials are also softening, coal and coke and other things, Now, let me come back to your question, which you said about the sodium bicarbonate. Sodium bicarbonate is very stable in the last quarter and even if you look at the salt, which you said, edible salt has done good in the last quarter.

Saket Kapoor:

The revenue number quarter for the same, if you could bifurcate with the sodium bicarbonate, how much?

RS Jalan:

Sodium bicarbonate, the numbers are not very significant if you look at the total volume. What we are talking about something around out of 190 or 180 production we are talking about roughly around Rs.11 Crores -Rs.11.5 Crores is the sales value.

Saket Kapoor:

What is the salt part Sir?

RS Jalan:

Salt is roughly around 12.

Saket Kapoor:

Both contributing around Rs.24 Crores?

RS Jalan:

It is not a very significant number.

Saket Kapoor:

My last question then I will come in the queue, other expenses have been sharp increase from Rs.93 Crores to Rs.123 Crores and even on quarter-on-quarter also there 111 to 122. This quarter is also having one-off thing or is the seasonality factor playing its part?

RS Jalan:

No, there are two reasons. One is the accounting part . The service tax used to be earlier net off from the sales realization. Now that figure has been grossed up in the sales revenue and that has been shown as an expenditure also and second is obviously the volume if you know in the textile, the volume has gone up, so that also contributes the other expenditure.

Saket Kapoor:

That means you said that it is on the service tax netting part that is contributed?

RS Jalan:

Yes, the service tax is one of the reasons, major reason of accounting entry I would say that.

Saket Kapoor:

I will come in the queue Sir.

Moderator:

Thank you. The next question is from the line of Sachin Kasera from Lucky Investment Managers. Please go ahead.

Sachin Kasera:

Good afternoon Sir and congrats for a good set of number. Can you just quantify what was the volume in soda ash for September quarter versus June quarter end versus September quarter last year?

RS Jalan:

If you look at the total production, total production was 191 this quarter and last year it was 176.

Sachin Kasera:

What was the figure for the June quarter Sir?

RS Jalan:

June quarter was 185, last year and this quarter was 187. Sachin, we have messed up the number. Q1 2016, the number was 171 and Q2 2016 is 191. If you look at Q2 2015, the number is 176.

Sachin Kasera:

Okay. So there is almost 10% to 12% growth in volumes both year-on-year as well as quarter-on-quarter?

RS Jalan:

Correct.

Sachin Kasera:

Against that if you see the revenue for the September quarter is higher by earlier around 10% to 11%.

RS Jalan:

Like I said if you look at our inventory has gone up from it is used to be around 5000 tonne, which is roughly around 15,000 tonne, so addition in the inventory, which is not the part of the revenue.

Sachin Kasera:

191 is the production number or is it a sale number that you gave me?

RS Jalan:

Last year production number, do you want sale number?

Sachin Kasera:

Yes, I want sale number Sir.

Raman Chopra:

I will just share you the sale number. Q2 of last year the sale was 159000 tonnes, current year first quarter sale was 160000 tonne and current Q2 of financial year 2016, and the sale is around 170000 tonne.

Sachin Kasera:

You mentioned about the softness in prices, is that an expectation or it is something that you already experienced in the last three four months?

RS Jalan:

No, like I said if you look at in terms of the realization, the realizations are almost flat. This trend of course we are seeing for the last one, one-and-a-half months and which probably will translate into some drop in the realization going forward but till now to September, no.

Sachin Kasera:

Do you have any sense what could be the drop like 2%, 3% or you anticipate sharper drop of 5% to 7% in realization?

RS Jalan:

Sachin I do not think we are looking at a very significant drop. We are looking at only marginal drop.

Sachin Kasera:

Can you quantify, what is the type of benefit per tonne you could see on the cost side, now when you would have some visibility on your contracts for coal and other power and fuel. So, how do you see your cost per tonne in second half versus H1?

RS Jalan:

I can only say Sachin that if you look at our margin of this quarter, we see that the margins should be better than this quarter overall if I net off of the drop in the prices as well as the raw material prices. I would say that the margin we should be in a position to slightly improve the margin vis-à-vis this quarter.

Sachin Kasera:

This increase in debt that you mentioned that has happened in the first six months is primarily because of increase in inventory?

RS Jalan:

Sorry, can you repeat Sachin again?

Sachin Kasera:

There is also mentioned in the opening remarks that your total debt for September has gone up as compared to the March, so there is also mentioned wherein you mentioned that the inventory has gone up from 5000 tonnes to 15000 tonnes. So I was wondering this increasing debt is primarily because of the increase in inventory or there are certain other reasons?

RS Jalan:

Very rightly you said, Sachin like even in Raman's speech, he has mentioned that our long-term debt has gone down. However, our short-term debts have gone up that means basically working capital has gone up, primarily because of the two reasons. One, our inventory of soda ash has gone up and second is our activity in the textile sector has gone up very significantly and you know that there is a receivable cycle in the textile industry, so there overall your receivables have gone up, so these are the two reasons which over a period of time receivable should come down.

Sachin Kasera:

Rest of the interest part that you mentioned that your debt equity has now improved to around 1.53, has there been any recent rating upgrade or are you anticipating any rating upgrade in the immediate future?

RS Jalan:

Rating has been maintained at the same level what it was last year. There is no upgradation on the rating till now.

Sachin Kasera:

Any other measures that you are taking to be able to now that relatively we are stronger to be able to reduce the financial charges other than the normal benefit that we would get by the reduction in base rate?

RS Jalan:

Obviously we are looking at two things, Sachin, on this. One the interest rates are softening overall and therefore we are taking the reduction, we are negotiating with the banks also to reduce the interest rate, so that is the one reason. Second is our focus on the working capital utilization, because that is also very important. If we can improve our inventory cycle, we can improve our receivables number of days receivable and other things definitely that will also reduce our working capital interest.

Sachin Kasera:

So just of this talking, working capital in this quarter obviously the inventory has gone up. You are confident that it should be back to normalized level by end of March in the second half?

RS Jalan:

It should be.

Sachin Kasera:

How much is the incremental volumes can we expect from the new capacity in FY2017 Sir?

RS Jalan:

Around 100000 tonnes, which we have said. I would say 95K to 100K tonnes additional volumes would be there.

Sachin Kasera:

Thank you so much Sir and I will follow up in the queue.

Moderator:

Thank you. The next question is from the line of Rishabh Nahar from Girik Capital. Please go ahead.

Rishabh Nahar:

Sir I have few questions. In terms of saw soda ash, I might be new to this, but I just wanted to understand that how the cycle works. If there is an increase in your raw material cost, can you pass it on like for an example there are no limestone mines that are being given by the government, so eventually your prices will increase, so can you pass on this prices and how does the actual pricing move?

RS Jalan:

You are very right. Prices of the product do not go only on the basis of the raw material cost going up, because ultimately you have to look at the market. Now, if the raw material cost goes up, this will go up for everyone. It goes up for everyone obviously we will be in a position to pass on those cost to the consumer. However, suppose it goes up only to us then I will not able to pass on. That is very important. Obviously, always the selling prices is based on the market competitiveness.

Rishabh Nahar:

It does not fluctuate I mean what is the actual fluctuation in the last four, five years. How is soda ash pricing moved?

RS Jalan:

I would say that the soda ash price is pretty consistent and may be if you look at graph, you will always find these prices are always on the upward. I have not seen in five years any downward on the soda ash prices.

Rishabh Nahar:

Right and we have taken advantages in that contributed to margin?

RS Jalan:

Yes obviously.

Rishabh Nahar:

Why is that our margins are much better than everyone else in the industry? Do you have any freight cost savings?

RS Jalan:

Like I said there are a couple of advantages we have, one is our capacity utilization. This quarter our capacity utilization is 91% that can be benchmark for anybody. 91% of the capacity utilization is not seen in the soda ash industry. So our capacity utilization has always been on the highest in the industry, so our efficiencies are better, but every cost is from the same plant I would say the utility cost etc. all are on the fixed nature. If you produce out of that 180,000 tonnes or you produce 191,000 tonnes, your cost of these things remains consistent, so your cost of production goes down, so that is the one reason I would say. Second I said that our control on the captive like we have lignite mines that is unique to us then we have briquette plant which has been innovated by us. These are the factors which had always been given us highest margin in the industry and this is not today I would say historically we have always been higher in the margin as compared to industry.

Rishabh Nahar:

These lignite mines will last us for how many years?

RS Jalan:

Roughly around if we go the way the plan right now is around five to seven years.

Rishabh Nahar:

Then we will have to acquire more mines or then dig out?

RS Jalan:

Yes.

Rishabh Nahar:

You said that you do some capacity expansion, but if you see the volumes last four, five years has been around Rs.7 lakhs and Rs.7.5 lakhs, we have been 85% utilization and like you said the demand is reducing, is the right decision that we spend Rs.375 Crores and finish, what is the thinking behind this?

RS Jalan:

No, I have not said that the demand is reducing. I said that the demand growth is lower, but if you look at the last many years if I can say 10 years, 7 years whatever number you want to take you will find the growth in the range of around 5%. So historically you look at the 5% growth and the total demand at this point of time roughly around 3.3 million. If you take 5% of that, it comes to around 1.5 lakh tonnes to 1.7 lakh tonnes additional volume required that is number one. Number two today, import is almost around 24% of the total demand in India, so you have market of 24% in that space which you can always out beat and you can always take that volume from the import.

Rishabh Nahar:

Sir but that is also because that in South East India the freight cost for us will be a lot because we need…?

RS Jalan:

But even if you look at the west, all the imports are coming, and like if you do not capture the import demand even and if you take the growth itself, you need that kind of volume. Why so much of import has happened, primarily because the industry has not expanded in India. Historically, if you go globally import is in the range of only 10%. It is around 24% in India. I do not see any reason, that there is any concern on the demand or the utilization of that product or selling of the product, I do not see that reason.

Rishabh Nahar:

Anything on the antidumping because it expires in 2017, so I mean anything because government has in mind or anything that you know in the industry?

RS Jalan:

Right now, the consumer industry has put up a petition for the review of antidumping duty, but we believe that up to 2017 we do not see any reason of the withdrawal and globally India has always been competitive. , but if suppose it continues to be dumping continues, the way that Chinese scenario is then we are confident that the government will continue that anti-dumping.

Rishabh Nahar:

Thanks. On the textile side, you said that now this margin expansion is happening, is it because of a change in mix or the capacity utilization, what is contributing more?

RS Jalan:

Like I said there are three factors which are contributing to this and honestly if you ask me I am very bullish on this segment, on the textile. Look at capacity utilization, last year the capacity utilization was only 70% and this has gone up to 83% in this two quarters in Q1 and Q2 put together and we believe that this should continue 85%, 87% of the capacity utilization should continue for this year overall. We believe that it should be in FY 15-16 it should be around 85%. The way we are seeing this business, we see very a significant jump in 2017 and that is primarily that is leading towards the margin improvement and in addition to that the customer mix or the replenishment program all these things are helping us to improve the margin.

Rishabh Nahar:

What are the value-added products that we are selling bedcovers, bed sheets, what contributes to our revenues?

RS Jalan:

Basically if you look at our product is the home textile only, which is the bed sheet. Overall, this margin comes from that only. One thing I wanted to mention is that in this margin improvement will be from wind like I said we are putting capital on this and wind will be 55% of our total power demand of the spinning that is huge. You will have 25 megawatts of the wind power, so that will also reduce our power cost that will help us in improving our margins.

Rishabh Nahar:

When will this capacity increase and you have about 34 million meters?

RS Jalan:

Right now it is 36 million. We are looking at next year some debottlenecking in that plant and that will help us to improve our volume. Stitching is one of the most important aspect of our textile business which we are expanding this year itself and that stitching will be completed, by January-March and that will help us to improve the volume overall.

Rishabh Nahar:

Thank you so much.

Moderator:

Thank you. The next question is from the line of Girisha Saraf from Ambit capital. Please go ahead.

Girisha Saraf:

Thank you so much for taking my question. As you might see that there is an industry trend the players are moving sideways and kind of increasing their product mix, because I understand that US retailers are now demanding of greater product mix of bed linen, terry towels, rugs etc., so what is your view on that would you also be moving sideway sometime soon?

RS Jalan:

Not immediately, if you look at next year, no. Like I said our first priority at this point of time is to take this business to expected level of the EBITDA margin and that we see a good opportunity in that area. Capacity utilization being the best, I am talking about product mix in the home textile i.e. in the bed sheet itself, replenishment program etc. So those things are our first priority and in 2017, we are going to focus only on these areas and then afterwards we will look at that.

Girisha Saraf:

You actually feel that there are some part of pressure from US retailers that they are want to you to produce terry towels, rugs, carpets, etc as well?

RS Jalan:

No, we do not see, of course it is the home product, but there are different, buyers who deal with this kind of product and we have not felt any such kind of pressure from buyers that you need to be present in the terry towel or other product.

Girisha Saraf:

What is your thoughts on building up front end capabilities like, I want to know that other players in the industry such as Welspun, Himatsingka, and Indocom, they have all build up front end capabilities either in the form of taking their licenses, buying brands or having marketing set up placed like in US, so now that you have also grown, so bigger than the capacity utilization is also increasing. Do you think some sort of front-end capability would help your business?

RS Jalan:

We have the front-end capability. In US, we have our marketing office, we have a showroom, our people are spending lot of time there and we have taken few brands also on the licensing and we are going on that basis.

Girisha Saraf:

What are your views on acquiring brands and having a larger portfolio of big brands in licenses also?

RS Jalan:

Like I said, we have taken one very prominent brand recently and we are working on the licensing. We are not acquiring the brand. We are taking the brand on the license.

Girisha Saraf:

You would be giving out details a bit later?

RS Jalan:

Yes.

Moderator:

Thank you. The next question is from the line of Suyash Kapoor from Kapoor Stock Broking. Please go ahead.

Suyash Kapoor:

Good afternoon. Great speaking with the management. My first question is that, we said about softening of raw material price. In the same tune, please give your view on how the position impact on demand of soda ash? Second question is if you can note it down regarding capital structure. Does the management as the commentary, which you have just now given that you are very bullish and you are looking optimistic as well as reducing the debt to equity ratio to a very reasonable very level may be one is to one of even five year you are going to reduce it below to the level of one. So does the company have a plan in order to reduce the capital structure, because you are having capital structure of Rs.100 Crores, so do you have any plan of demerging the textile unit into a different company and bringing in private equity investor. The reason why I am emphasizing so much on bringing in a private equity investor, because the equity market, Indian stock markets are buoyant and it may be a right strategy to demerge the company and create value for shareholders. You have just told in your commentary right now that you have invested Rs.150 Crores in the textile segment, so that investment and for the debt showed that the company is looking very forward, I think you are bullish on the textile segment. So if you can demerge the company it will help the management as well as create value for shareholder it will help the management to focus more on the textile segment? Third question Sir regarding this Grace Home Fashions Limited if you can give some light on this company? What is the data of the subsidiary Grace Home, Grace Home Fashions which contributes to your topline, on the page number 80 of the annual report, it has been given that you have made a profit of Rs.185 Crores, if you can throw some light on these questions? That will be very kind of you.

RS Jalan:

Three things. One is you said about the China. I have already said in my discussion that China is soft overall on the demand of soda ash and that will have some impact on Indian prices of soda ash, but I said along with that also, we see that the raw material prices are also softening and that may give us a help on retaining our margins and therefore generally I do not see that it would be major impact on that that is number one. Now, if you come back to the second point which you said about debt equity and restructuring of the overall, basically you have given your suggestion, we will definitely look at this and once appropriate we will come back to you people if we have any plan on that, but we take your point very seriously and we will debate internally and we will come back once at appropriate time on that restructuring or hiving off of the company because we have to look at many of the factors in the overall scenario and then we will come back.

Suyash Kapoor:

Current status of Grace Home Fashion?

RS Jalan:

Let me say that, Grace Home Fashion is a subsidiary of GHCL, which is a marketing arm, like just before this question. The question was how asked that how do you do the marketing and what is the front end of your textile business, so this is the company Grace Home Fashion which is in US which takes care of our customer's requirement there. There are many customers who want the product delivered from the warehouse of US. This product we transfer to US and then it is being billed to the customers like bed Bath & Beyond is one customer. There they buy the product only from the US, so that product goes from here to the US and from US it is shipped to the customer, so that is the operating arm or marketing arm of GHCL in US.

Suyash Kapoor:

About renewable energy you are saying you are optimistic and you are investing significantly in order to increase your capacity from 25 megawatt to 50 megawatt if I am not wrong?

RS Jalan:

No, I have not said that sorry. I stated that we are making up to 25 megawatt.

Suyash Kapoor:

Is the company looking forward as we are seeing the current environment that our Prime Minister is also very optimistic on investing in solar energy, does the company with that view, has any plans that it might be also set up some plan, so overall energy cost can be reduced that will add to our bottomline in the long run. kyoto protocol also, carbon credit was earlier provided, so in that same tune I want to ask this question that whether company is planning that it will invest in solar energy. Will it be possible for the company to do it?

RS Jalan:

Surely your point is valid and let me brief you on that. First is that our experience on the wind energy is long back. The 8-megawatt, which we have invested, we have invested many years back around 8 to 10 years back. Our experience on that was like you very rightly said carbon credit benefits and all those things have been given to us and we enjoyed those benefits. Now, in between that you know that there was an accelerated depreciation also on the wind energy. Now, recently in the last budget the accelerated depreciation has also been allowed on the wind energy. So keeping these two factors into mind, we have gone ahead and while doing this wind energy we have evaluated the solar energy as well. At this point of time, we realized that our benefit on the wind energy is better than the solar energy and therefore we have gone for the wind energy. But going forward, we are keeping a close watch on the solar energy and surely when the opportunity comes we are going to make an investment. We are keeping a very close tap on the solar energy as well.

Suyash Kapoor:

Last question regarding dividend policy. Last conference, which we had you, promised that you discussed with the management regarding your dividend policy. Sir, if you can improve your dividend policy, your earnings per share from the Grace of God and your hard labour which you are giving and the entire company is giving, management is giving, is increasing very well, but the shareholders who are long-term investors, they also look at the dividend portion if you can consider on that. Thank you Sir.

RS Jalan:

Thank you very much and we will definitely look at this.

Moderator:

Thank you. The next question is from the line of Dixit Mittal from Subhkam Ventures. Please go ahead.

Dixit Mittal:

Good evening Sir. Can you give the breakup of textile in terms of home and yarn?

RS Jalan:

We are looking at both these numbers together. We do not look at these numbers separately, because if it is appropriate to have this number together, because what happens yarn goes from the yarn division to the home textile division it is always better to look at these numbers in totality.

Dixit Mittal:

What is the reason that we have seen quarter-on-quarter dip in the EBITDA margin in the textiles from 14% to 13% this quarter?

RS Jalan:

Basically if you look at overall our volume has gone up and if you look at EBITDA margin in the 11% last I am talking about quarter one versus quarter one 2015. It has gone up from 11% to 14%. In quarter two 2015 from 7% it has gone to 13%, so roughly around 1% drop is there that is primarily because of your shipments. You cannot have that kind of fine tuning of the shipment, some product will go in the first quarter which is slightly on the higher margin that does not go into the second quarter. So this, we have to always look at in terms of the totality, but I would not say that this drop will have and it should not be assume that there is a drop in the margin and if you look at the drop is only 0.6% it was 13.8% last quarter and you see 13.2% in this quarter to be precise.

Raman Chopra:

But if you look at overall EBITDA, it has increased from Rs.34 Crores to Rs.38 Crores. There is a volume increase also. Overall EBITDA compared to first quarter has gone up. So we are shipping the increasing trend only.

RS Jalan:

But the EBITDA growth is around 108%.

Dixit Mittal:

You mentioned earlier call that we aspire to reach EBITDA margins comparable to our larger peers in home textile, so by when do you see our margins catching up with the competition Sir?

RS Jalan:

Last time also I said in this call that currently our margins is something around 13% and we are trying our best to achieve around 14% to 15% margin by this year end and I am saying margin percentage, of course the volume will be higher and therefore EBITDA overall in absolute number will be much higher, as we are talking about higher volume. Next year, our target by the year-end (FY2017-end)exit of Q4 2017 we are targeting around 18%. I would say it is around 16% to 18% margin on that number. I also said one thing here last time also I believe in a long-term basis, the EBITDA margin should not be considered more than 18%, if you look at the five year scenario.

Dixit Mittal:

This year's exit will be around 14% to 15% right? What was the driver for margin expansion if you can elaborate briefly?

RS Jalan:

Like I said three things which will be important or four I would say that one is capacity utilization that is number one, product mix that is number two, number three will be replenishment percentage will go up and the fourth will be cost like I said wind energy, another 6.3 megawatt is under installation, all these four put together will give us this improvement in the margins.

Dixit Mittal:

On working capital, we are seeing some deterioration partly you explained because of higher inventory, but payables have also declined, so is it a temporary phenomena or it is a more sustainable kind of thing?

RS Jalan:

No, I would say that we have tried to reduce our payables also, but I would say that we would like to maintain payables on this level.

Dixit Mittal:

There have any deterioration as you mentioned textile is the traditionally higher working capital intensive for of soda ash, so what is the sustainable kind of working capital that you are looking at?

RS Jalan:

Currently if you look at our working capital cycle in the textile is something around 2 to 2.5 times and as my understanding I said also this would be 3.5 to 4 times. This will happen the moment our volume goes up, this will automatically happen. This will happen only because of the three reasons. One is the replenishment program always helps to reduce working capital cycle. So that is where we are focusing on the replenishment program and overall if your volume goes up then automatically your working capital cycle improves. So these are the two things which will help to reduce working capital cycle that is the reason I said our interest cost overall as a percentage of turnover should go down.

Dixit Mittal:

When is expansion in textile coming on stream?

RS Jalan:

Like I said wind energy some of them are already commissioned by September end and some are under implementation, which will be completed by March 2016. On the home textile side some expansions, which we are doing debottlenecking in two ways. One is the stitching which is very important for us this will complete by January to February 2016 and debottlenecking in the home textile are the processing that will happen in FY2017.

Dixit Mittal:

So, 36 will go to 54 right after debottlenecking?

RS Jalan:

No, right now we are not talking about 36 to 54, we are talking about like I said first we are talking about the debottlenecking, 36 to 54, we are still working on that and that we have not yet committed money on that project. First we are talking about 36 it will go up to by roughly around it will be 389, 390 lacs roughly around.

Dixit Mittal:

Lastly, what is your capex plan for this year and next year?

RS Jalan:

Can you repeat your question?

Dixit Mittal:

On capex in 2016 and 2017?

RS Jalan:

I have already said, see if you look at our internal cash accruals, after tax is something around Rs.300 Crores and this we are talking about Rs.375 Crores in two years time, Rs.375 Crores in soda ash and around Rs.150 Crores in the textiles, so we are talking about Rs.525 Crores against that our internal accrual is still will be roughly around Rs.600 plus, so that will help us to reduce the debt also which I have mentioned in my remarks.

Dixit Mittal:

Thank you.

Moderator:

Thank you. The next question is from the line of Rahul Khandelwal from Systematix Shares. Please go ahead.

Rahul Khandelwal:

I just wanted to know more about the replenishment cycle and how does that work? Is it on a quarterly basis or these orders given on a month-to-month basis?

RS Jalan:

Let me slightly expand on this replenishment, but before I do that let me give you the number first. Our replenishment program percentage of our total turnover last year was 54%. Now in the first six months it is around 73%.

Rahul Khandelwal:

First six months is 73%?

RS Jalan:

Now how that will happen? All large retailers, which are having regular program, which are having regular product, which are on their shelves, they give you the program with yearly projection this is what likely sales will happen in the year. You continue to ship them on a monthly basis depending upon how much they have sold and they continue this till they find that their product is going good in the market, they continue that, that can happen another may be this can continue for about five years that can continue about 10 years and than can continue even for one year also. If suppose that product, is not being liked by the consumers and they find their sales are getting dipped then they may change the product. Then they produce another product there and the program can continue with you.

Rahul Khandelwal:

This program is basically that is the period of contract right?

RS Jalan:

It is not a period of contract. They give you a visibility of the program. See what happened in the retail, they give you space, this is what the space in the store and there they say this is what the product I want to keep there and they debate with you, they develop some new things and then they say let us put this product there. Based on the sales experience, they give you a projection that how much sales can happen on that product. We keep on shipping to them on a regular basis, because quantity which is a rollout, we call it as a rollout that grows with the major volume after that whatever is being sold, you replenish that on a monthly basis, I would say weekly basis depending upon the customer's requirement.

Rahul Khandelwal:

Would you be able to tell which quarter especially in the textile segment, have you seen larger sales, would it be during this time of December quarter where the Christmas sales in the Halloween sales happen during like the spring season?

RS Jalan:

Very right and very valid question, let me say the second and third quarters are always the best quarter of the home textile and this fourth quarter is the lowest, I am talking about January-March.

Rahul Khandelwal:

Because of the snowfall?

RS Jalan:

Yes because of snowfall, December quarter has already done which is a Christmas etc, so January, March is a low quarter and the first quarter is also low, but better than the fourth quarter. You can say that the worst quarter is the fourth quarter and the second worst is the first quarter and second and third is the best quarter.

Rahul Khandelwal:

Thank you very much. I appreciate it.

Moderator:

Thank you. The next question is from the line of Sachin Kasera from Lucky Investment Managers. Please go ahead.

Sachin Kasera:

I just wanted to one clarification. The entire yarn that we produce is for captive consumption or we also sell yarn outside?

RS Jalan:

We also sell outside sir,

Sachin Kasera:

What percentage of the yarn is captively consumed and how much is the outside?

RS Jalan:

Roughly around 35% to 40% we consume internally and the balance 60% we sell outside.

Sachin Kasera:

That is enough to feed your existing capacity of going up to about Rs.36 million?

RS Jalan:

No, we buy some yarn from outside as well, we buy some fabric also outside and yarn also from outside.

Sachin Kasera:

I am just wondering when we compare as you were also saying when we compare your EBITDA margins with some of your peers who are also almost fully integrated. Their EBITDA margins are more in the vicinity from 25%. We are taking a lot of initiatives and you also mentioned that you are looking around 16% to 18% and we are also fully integrating and going to fully integrated of the power plant. I am just wondering is it mainly the differences has gone away in margin mainly because of the older peers are having better realizations than us what could be the other reasons?

RS Jalan:

You are very right on a couple of things. One, definitely like I said we are not matching with our peers because we are new entrant and therefore in terms of our capacity utilization, in terms of replenishment program, in terms of I would say even the value realization per meter are not up to the competition, that is number one and that is mainly because we are the last entrant and we will take some time to reach to that level that is number one. Second reason is that if you look at our competition, some competition has a different model where the integration is not there, some competitions are there where they are in the different segment of the product as well. They are in the rugs, they are in the towels and things like that and the fourth which is again very, very important their positioning in the market definitely they are getting slightly better in terms of realization from the customer being the old player in the market. That is what we are trying to catch up to those numbers and going to that level, but like I again maintained, that we believe historically if you look at the number of five years we believe that maintaining a margin of 16% to 18% on a long-term sustainable basis will be the good number. Because I can tell you only one thing here is, we have to look at the number how we are saying that will be 16% to 18%, because in the spinning business we are the oldest and we have looked at the spinning business for the last many years and what we realize is our average margins are in the range of around 16% to 18% only. We believe that if you look at long-term five years period 16% to 18% margin on the sustainable basis will be more valid than Peaks and Valley.

Sachin Kasera:

To add to that point or to contradict that, we said 16% to 18% is on the spinning, but we are making that bed sheets and home linen then obviously we are doing more validation, so our margins integrate, you said you want to see textile has one composite segment when I am going for validation, my margin should improve from 16% to 18% historically only by doing spinning correct?

RS Jalan:

No, Sir. Let me give you a slightly different perspective on this. Basically if you look at return on capital employed, then I what you are saying is I will understand that. But if you look at the turnover, then turnover the margins you should not look at more than that and I will give you the reason of that. In spinning what happens your turnover ratio versus the capital is almost used to be one to one. That means if you put Rs.100 Crores of investment, your topline should be around 100 and if you look at 18% of the EBITDA margin that is we are talking about Rs.18 Crores of your EBITDA, but in the home textile, when you are going for a value addition from the same Rs.100 Crores of investment your turnover will be something around Rs.250 Crores to Rs.300 Crores, because it is roughly around 2.5 to 3 times. If you look at the EBITDA margin of 18% you are talking about 54 or it may be you can say 40, 45. So that is the return on capital employed because of the value added segment, your return on capital employed on the home textile is higher.

Sachin Kasera:

I had just one small question on this. How much of a discount is your bed linen segment today to the established players when you sell to the US, a rough sense?

RS Jalan:

It always depends on the product-to-product and it depends on the customer-to-customer. I can give you sense on these. Suppose you are selling same product to A customer, you can get value realization is 100 and if you sell the same product to another customer, the value realization can be 95. Now it depends on the customer which customer you are dealing with and which products you are dealing with. In the same scenario if you are dealing with lower thread count or I would say less premium segment, your value realization can be different and if you are dealing with higher segment of the product then your value realization can be higher, so all these things put together, but if you can say on an average basis, I would say definitely our margin will be something around that if I am talking about I am not comparing with one specific any competition. If you look at the best competition in the market may be 3% to 4% we will be lower in terms of the realization, I am taking in same product with the same customer.

Sachin Kasera:

You have already done 83% in the first half, what is the utilization levels you are trying to achieve for FY2017 on textile, it should be closure to 90%?

RS Jalan:

Basically like I said if you look at the first six months it is 83% and we are definitely looking at FY2016 totally 12 months, we are looking at 85, so obviously we are talking about something around 87%, 88% capacity utilization in next six months. Next year we are looking at much higher number. We are looking at much significantly higher number, because some of the program, which I mentioned in the discussion paper also that some of the program, which may have been awarded the shipment will start in the first quarter of 2017. So, therefore next year, we are definitely looking at this capacity utilization beyond 95%.

Sachin Kasera:

You have very high visibility on achieving 95% close to next year?

RS Jalan:

That is what our target is and we are confident that we will be able to do that in next year.

Sachin Kasera:

During that you would be achieving 95% next year and if we also the industry going by the demand potential most of the players have announced large capacity expansion between 50% to 100% of the capacity, so are you not tempted to look in terms of beyond FY2017 and look any capacity increase in your home textile business?

RS Jalan:

Surely, I agree with you that some kind of expansion should be taken into consideration, but we want to be slightly cautious on that. You rightly said everyone is talking about expansion. We have to look at the right time, should we join the people at the time when everyone is expanding or should we look at appropriate time when we see the demand growth, because one thing which is again very important if you look at the European market the market share of India is very, very low at this point of time. The potential which I see is in the European market and that European market there is something at this point of time is pending with the government if that happens there will be phenomenal opportunity in the European market.

Sachin Kasera:

Basically to the European trade agreement that Indian government is trending with the European nation?

Sachin Kasera:

Because if you look at today in India, India in the US is 48% market share of US whereas if you look at in Europe, we are only 10% and Pakistan is 43% there whereas in US, Pakistan is insignificant only 17%. So, therefore what I say is that there is a big opportunity in the European market and definitely we are waiting for that to happen and it does not take too much of time in expanding the capacity of the home textile, it does not take too much of time.

Sachin Kasera:

European market is almost as biggest as the US market?

RS Jalan:

In billion dollars or in million meters?

Sachin Kasera:

Is European market as biggest as US market or if you could just give some sense, what is the size of the opportunity in the European market vis-à-vis US market?

RS Jalan:

US market and the European market has also the same number.

Sachin Kasera:

Some of the players also talking about Japan as a potential opportunity for the Indian players or industry players? What are your thoughts on that you are also tap Japan?

RS Jalan:

Not at this point of time, Japan we are not looking at. We are looking at Australia. We are looking at Canada and things like that.

Sachin Kasera:

Looking into diversifying into either rugs or terry towels or any of the existing segment, because some of the customers may be common for both the products?

RS Jalan:

Not really at this point of time, I would say that 2018 what happens, but I am talking about next year we are definitely not looking at any diversification or the product portfolio increase. We will be looking at a product portfolio increase only in the segment, which we are present at this point of a time, which is a bed sheet not in the rugs and the towel.

Sachin Kasera:

In home textile itself are you looking at entering into say the fashion bedding or the institutional segment any of these where the India market share is relatively less than 4%, 5% normally?

RS Jalan:

Not in the fashion bedding. The competency required for the fashion bedding is totally different. We want to go with a solid consolidation and then we want to go for that. At this point of time like I said our focus is to bring to the level of 18% EBITDA margin, Bring the capacity utilization to a level and there we see that opportunities are reducing in the area where we are operating right now and then we will go for the other areas.

Sachin Kasera:

One question on the limestone mine, there was some notice that you put up on the Bombay Stock Exchange regarding some penalties being imposed on the company by some independent government body reports and all that? Just to clarify and what exactly the matter is and if what could be?

RS Jalan:

I will clarify that. First of all let me clarify this is not a penalty imposed on us, this is only show cause notice given to us and we felt it is prudent on our part to inform our investors on this and therefore we have put on the website or the stock exchange about this. So, therefore I want to again clarify that this is not a penalty imposed on us. This is only a show cause notice for which a long process of response and final adjudication will take place number one. Number two, like I said in the declaration which we made to the Stock Exchange, we believe that this demand is not sustainable, because there are many things which we have not taken into consideration while doing the measurement. The way they have done the measurement of the mine which are not scientific and therefore we are contesting on these show cause notice. We believe that the penalty or the show cause notice, which has been given to us, either may be dropped or may be some marginal final figure can come, but we do not see any significant amount coming out of this.

Moderator:

Thank you. The next question is from the line of Rahul Khandelwal from Systematix Shares. Please go ahead.

Ankit Mehta:

Thanks. This is Ankit. Sir three questions from my side. First of all if you can clarify, we are playing home textile market in US in lower end categories like where Bangladesh, Pakistan and Rest of the World is there if you can clarify this or am I making sense out of this?

RS Jalan:

No, Let me tell you we are not competing with Bangladesh and we are not supplying those products, which these countries Pakistan and Bangladesh is making. We are supplying those products, which are India specific, products that are there on the premium segment of the market. Let me clarify this point slightly more. When we say that the premium segment of the market, US market is basically on the thread count concept. So, if you look at Bangladesh, Pakistan, we are talking about 150 thread count or 140 thread count, we are not present in that segment, we are present only on the 300 plus kind of a product which all the competition from India are primarily on those segments.

Ankit Mehta:

Next question with regards to your cotton price outlook and what we are building and why you are not taking in account projection for next two years?

RS Jalan:

It is a very valid question. One is that we do not see any surge in the cotton prices going forward. We see this year if we look at because in October the season starts we see a good crop this year for India and globally the way we see that cotton prices we do not see that the cotton prices has any potential of going up but also we do not see any major drop in the cotton prices also. Small drop can happen because of the minimum support price, and why do we say that is because of Chinese policy. As you know, in April the Chinese had changed their policy. They have a huge amount of inventory and they are now started consuming, earlier they were accumulating this inventory, now they have started consuming that inventory. So because of that the demand supply the requirement of import of cotton from other country like from India as well has gone down because of that we see a very consistent pricing.

Ankit Mehta:

How pass through happens in this monthly or two monthly or quarterly.

RS Jalan:

Can you repeat your question?

Ankit Mehta:

Pass through of cotton prices now?

RS Jalan:

Pass through you are talking, again yarn prices is independent in my view. It is independent vis-à-vis the cotton prices. Of course sentiment wise some impact takes place; however, these are two independent thing, if you look at means if I can say last year mean these two quarters and even last year also two quarters the yarn prices had dropped more than the cotton prices and therefore the margin and spinning has gone down.

Ankit Mehta:

My question was pertaining to prices with regards to Wal-Mart for example you are supplying to Wal-Mart and cotton prices dropped by 5% or 10% in this month then how pass through happens or how we negotiate in that?

RS Jalan:

Normally what happens if the drop in the prices or the increase in the cotton prices is in the range which you said then I do not think there is any negotiation takes place; however, if there is an abnormal increase or decrease then both the sides they sit together and they negotiate because they are not only the cotton prices the dollar versus Indian rupees and your competitions from other world. All those things also been taken while negotiating this price. It is simply only on the cotton prices.

Ankit Mehta:

Sir if you can highlight some of the reasons why what it is the intensity of pledge right now share pledge any plan to de-pledge shares promotions?

RS Jalan:

This is a promoter's related issue and we are the management. We do not have at this point of time any comment on this. This only promoter can answer on this question.

Ankit Mehta:

Thanks a lot. Thanks for addressing the question.

Moderator:

Thank you. Ladies and gentlemen we will take a last question from the line of Neeraj Mansingka from Edelweiss Capital. Please go ahead.

Neeraj Mansingka:

Sir wanted to know can you give more color on you had said that you have orders from the US. Can you give us more colour on that and also how is the competition firming considering that India has a very large market share in the US?

RS Jalan:

If you look at the India's market share as you see the trend, it has gone up from 33% to 34% of the US market to now it is 48% and we believe that this will sustain may be 1% or 2% here and there but we do not see that it should go down very significantly but honestly if you ask me I do not see this going up also very significantly.

Neeraj Mansingka:

So then how do you justify the capex as well because see all the competitors are expanding capacity and the market in US is not expanding is almost 2%, 3% expansion in the volume side?

RS Jalan:

Very valid question.

Neeraj Mansingka:

So then what is your look out? How do you see the outlook say from two years down the line? How the competition will move or how the pricing in the industry will margin move?

RS Jalan:

Basically two things are happening like I said one is definitely the focus is more on Europe side where the people see big opportunity that is number one. Number two in the US also there is a growth of 2% to 3% is taking place and you know that the base is very big base in the US and in addition to the US, there are other markets like Mexico, your Canada, your Europe, Israel, South Arabia, Australia, Japan all these markets are also there. So those are the opportunity, which has to be captured by the competition means by Indian producers. So we see an opportunity of this to happen and that will increase the overall market share of India vis-à-vis the global I am talking about not US specific I am talking about the totality.

Neeraj Mansingka:

But Sir any colour on the competition in the US market?

RS Jalan:

Competition if you look at the segment where we are, the major competition is only within the India itself because 48% is the big market and then if you look at like you look the Pakistan. In Pakistan the 17% is there but that is the different segment. I do not think this would be a major possibility of catering that market because of the different segment. China is about 25%, so may be slight opportunity can happen from there. Otherwise I do not see any opportunity there and if you look at the market share if you look at we have an opportunity because our market share at this point of time is very low. If you look at as compared to the competition our market is very, very low. So we have an opportunity there to grab the market.

Neeraj Mansingka:

Sir any thoughts or discussion you had with the clients like Wal-Mart for bringing down the prices for the bed sheets?

RS Jalan:

Surely, of course, but we are not supplying to Wal-Mart let me clarify that. We are not supplying at this point of time to Wal-Mart US. Our major clientele is Target, Bed Bath and Beyond and others but small drop or the renegotiation in the prices are taking place in the industry vis-à-vis the US consumers because couple of things has happened because this price drop has not happened in last six months I would say that though the cottons have gone down or the yarn prices have gone down even your dollar has appreciated. So towards all those benefits some drop in the selling price are taking place.

Neeraj Mansingka:

Thank you Sir.

Moderator:

Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Rohan Gupta of Emkay Global for closing comments. Thanks Sir and over to you Sir.

Rohan Gupta:

Thanks Aman. Sir thanks a lot for patiently explaining us each and every part of the business and its criticality. I think the call went the very long. So but thank you very much. Sir just before we wind up I have very quick two questions only. One is on taxation part that why the tax is higher for the current quarter Sir?

RS Jalan:

Raman, I think you are the right person.

Raman Chopra:

Overall that shows our strength on what we foresee as a profit and you see even last year also the tax element was around 40% in the second quarter. So we have maintained that so and our overall tax includes both part. The payout and as well as the deferred tax. So based on our total estimates for the full year we provide the tax. So that is why the tax provision is higher during this quarter.

Rohan Gupta:

So it is a more of the seasonality rather than any actual change in a business?

Raman Chopra:

Yes.

Rohan Gupta:

Another question once again on a working capital though you mentioned it little bit but could I see in the balance sheet that there has been on one side there have been decrease in creditor by almost 60 Crores while there have been increasing debtors also increased of 60 Crores. So I mean put together is roughly Rs.120 Crores though you mentioned that higher inventory is probably the reason for deterioration in working capital and may be in textile business higher sales but why the in fact more reduction in creditors and why more increase in debtor?

RS Jalan:

Rohan, if I can answer on that question, like I said in the home textile the turnover has gone up and you know that the business cycle which I mentioned before also there is a receivable which takes 90 to 120 days kind of a realization okay. So that has spurt the realization of the home textile business.

Rohan Gupta:

Okay that explains the increase in debtor why so reduction in payable Sir?

RS Jalan:

Reduction in the payable is mainly on the inorganic chemical. We have reduced. The coal payment we have paid the LC of the coal and primarily coal and limestone both. We have paid some coal and limestone LCs and that has been reduced from here.

Raman Chopra:

Similarly in the cotton also that.

RS Jalan:

In the cotton also, rightly said in the cotton also we have paid those what you call the receivables which we are because the new season was starting we have paid the earlier outstanding of that because we have now accumulate the inventory of cotton from the October onwards.

Rohan Gupta:

So has it happened more towards the end of the quarter because we could not see any impact on the interest cost? It is almost similar what was in Q1.

RS Jalan:

Generally what happens you will say that it happens in the last two months I mean August-September.

Rohan Gupta:

Okay so probably a little bit increase in interest cost we may see going forward in a subsequent quarter?

RS Jalan:

Yes it can be. It can be slightly but on the other side your long-term debt will go down.

Rohan Gupta:

I would not take much of your time again. Thank you very much for giving us your valuable time. On behalf of Emkay Global Financial Services I also thank all the participants who have logged in for the conference call. Once again a special thanks to the management for explaining us business in detail. Thank you very much Sir and look forward to see you in the next quarter.

RS Jalan:

Thank you to everyone. Thank you very much for joining us.

Moderator:

Thank you very much. Ladies and gentlemen on behalf of Emkay Global Financial Services that concludes this conference call. Thank you all for joining us. You may now disconnect your lines.

Note: 1.This document has been edited to improve readability.

2. Blanks in this transcript represent inaudible or incomprehensible words.

Emkay Rating Distribution

BUY	Expected total return (%) (Stock price appreciation and dividend yield) of over 25% within the next 12-18 months.
ACCUMULATE	Expected total return (%) (Stock price appreciation and dividend yield) of over 10% within the next 12-18 months.
HOLD	Expected total return (%) (Stock price appreciation and dividend yield) of upto 10% within the next 12-18 months.
REDUCE	Expected total return (%) (Stock price depreciation) of upto (-) 10% within the next 12-18 months.
SELL	The stock is believed to underperform the broad market indices or its related universe within the next 12-18 months.

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