

12<sup>th</sup> June, 2017

To,  
BSE Limited  
Phiroze Jeejeebhoy Towers,  
Dalal Street,  
Mumbai – 400 001.

**Scrip Code: 532641**

To,  
National Stock Exchange of India Limited  
Exchange Plaza, Plot No. C/1, G – Block,  
BKC, Bandra (East),  
Mumbai – 400 051.

**Scrip Symbol: NDL**

Dear Sir,

**Sub.: Transcript of Con call held on 30<sup>th</sup> May, 2017**

Pursuant to Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, we enclose herewith, a transcript of Concall with Investors and Analysts which was held on 30<sup>th</sup> May, 2017.

You are requested to kindly take the same on record.

Yours faithfully,  
For NANDAN DENIM LIMITED

  
Purvee Roy  
Company Secretary  
(Mem. No.: F8978)



**Nandan Denim Limited**  
(Formerly known as Nandan Exim Limited)  
(CIN:L51909GJ1994PLC022719)

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**Nandan Denim Limited**  
**Fourth Quarter and FY17 Results Conference Call**  
**May 30, 2017**

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**Moderator:** Good evening, ladies and gentlemen. I am Lizann, the moderator for this conference. Welcome to the Fourth Quarter and FY17 Results Conference Call of Nandan Denim Limited organized by Dickenson Seagull IR. At this moment, all participants lines will be in the listen-only mode, later we will conduct a question and answer session, at that time if you have a question you may please press “\*” and ‘1’ on your telephone keypad. Please note that this conference is being recorded. I now hand the conference over to Mr. Arun Prakash. Thank you and over to you, sir.

**Arun Prakash:** Good evening, everyone. On behalf of Dickenson Seagull IR, let me welcome you all to the Earnings Call of Nandan Denim Limited for the fourth quarter and financial year 2016-2017. Today we have with us from the management Mr. Ashok Bothra, the CFO and Ms. Purvee Roy, the Company Secretary. Before we get started I would like to remind you that our remarks today may include forward-looking statements and the actual results may differ materially from those contemplated by these statements. Any forward-looking statements that we make on this call are based on our assumptions as on date and we undertake no obligation to update these statements in the wake of new information or social events. I would now like to hand over the floor to Mr. Ashok Bothra to make his opening remarks. Over to you, sir.

**Ashok Bothra:** Good afternoon, ladies and gentlemen. Greetings and very warm welcome to everyone present here for the earning call of Nandan Denim Limited for the Fourth quarter and full financial year ending 2016-2017. We are happy to inform you that we have successfully completed our capacity expansion which includes our expansion of Denim fabric capacity from 71 million meters per annum in FY13 to 110 million meters at present. Further we have added shirting capacity over 10 million meters and we are also backward integrated. Our spinning capacity has gone up from 54 tonnes per day in FY13 to 141 TPD at present. Post expansion, we are now the largest denim fabric manufacturer in India and 4<sup>th</sup> largest in the world. We expect to utilize the full benefit of capacity expansion and backward integration, in the coming financial year that is FY18. While we expect to see improvement in operating margin due to backward integration, we also expect to have better operational control leading to superior customer services through high quality denim fabric and on time delivery.

And coming to our performance during the fourth quarter, revenue from operation increase by 30% on a year-on-year basis to 3,821 million. Gross profit increased by 27% year-on-year

basis to 1,247 million, in line with the higher revenue. Gross margin marginally declined from 33.4% to 32.7%. EBITDA increased by 28% on a year-on-year basis to 604 million. EBITDA margin was largely stable at 15.8% and we reported a PAT of around 156 million with a margin of 4.1%. Post demonetization, over last six months the market conditions have gradually normalized and the denim market has been gaining traction and we expect FY18 to witness improved denim sales. We believe that our expanded capacities should put us in a competitive position and help us increase our market share. We look-forward to achieving a better growth rate in FY18, coupled with improved operating margins.

With this, I would now like to handover the call for question and answer sessions.

**Moderator:** Thank you. Ladies and gentlemen, we will now begin the question and answer session. We take the first question from the line of Vinod Malviya from Florintree Advisors. Please go ahead.

**Vinod Malviya:** If you can just give a macro overview about the industry, especially in terms of demand and what is the current capacity at the industry level and how much incremental capacity is expected in the next one year?

**Ashok Bothra:** If you see the growth, demand for denim has increased in the last few years. So, our main drivers are basically, the high proportion of youth in the total population. Further denim is considered as a fashion fabric; then penetration of denim into tier 2, tier 3 cities and preference of denim by women, is significantly contributing towards the denim demand. The demand will be further supported by growth in GDP, which is around 7%, as indicated by the World bank.

**Vinod Malviya:** No, my question was more towards the additional capacity which has been coming on stream because I remember in the Q1 of FY17, you mentioned that 400 million meters would be added by the industry in the next one year and the subsidies from the central TUF scheme are coming to an end. Has this capacity been added?

**Ashok Bothra:** I do not have any specific data with me but we are not foreseeing, we are not experiencing any shortage of demand, as far as denim is concerned.

**Vinod Malviya:** No, it is only on the supply side, so do you see any pressure in the pricing?

**Ashok Bothra:** On the pricing front, it may be a temporary phenomenon.

**Vinod Malviya:** So, how have the prices moved sequentially from quarter 2, 3 and then 4?

**Ashok Bothra:** Q4's realization per meter is almost at the same level, it is around 135, it is ranging from 132 to 138. So, safely we can say, realization is around Rs. 135 per meter.

**Vinod Malviya:** Just the last question, now almost 80%-90% of your yarn requirement would be in-house, so the consumption of power would go up. What is the source of power for you currently?

**Ashok Bothra:** We have set up one separate facility at our Bareja complex for manufacturing of yarn. So, for that we have electricity from Gujarat Electricity Board in place.

**Vinod Malviya:** This is the only source of power for you right now or you have some captive plant and some open access?

**Ashok Bothra:** No open access but we can always try and apart from that, we can also utilize the services of textile park, which has its own captive power plant. But supply is constant from GEB, so there is no need for tapping this textile park's power plant.

**Moderator:** Thank you. The next question is from the line of Resha Haria from Green Edge Wealth Services. Please go ahead.

**Resha Haria:** My first question is that on the sales front. What really has led to the 30% sales volume in Q4 because if we see the previous quarters, those were subdued?

**Ashok Bothra:** The reason behind the subdued sale was demonetization.

**Resha Haria:** That would probably be Q3, but first half of the year?

**Ashok Bothra:** So, we have experienced a 'V' shape recovery in Q4. So, whoever was sitting on the fence in Q3, they bought more material in Q4.

**Resha Haria:** But even if we look at the Q1 in the first half of the year, the growth was in single digit. So, if you look at in Q1 and Q2 it was around 7% and 3%. Is it just because the latent demand from Q3 which has trickled into Q4?

**Ashok Bothra:** If you look at the sales in H1, it is roughly around 603 crores and in H2 it is around 617 crores. If you compare the H1 number with that of H2, the H2 sales figure is marginally higher.

**Resha Haria:** Another thing, if I am not mistaken, in the Q3 con-call you mentioned that the sales growth guidance for FY18 was around 17%-18%, right, driven by 15% volume growth. So, what really gives you that confidence that we would be having double digit sales growth? Because if we look at your peers, some of your peers and the commentary that they give in their annual reports, etc. is subdued on the demand side, both in the domestic as well as the export market and they talk about a lot of overcapacity in the industry. So, what really gives you that confidence that we can achieve double digit sales growth?

**Ashok Bothra:** Yes, growth will be higher, maybe 10%, maybe 20%, exact figure I cannot forecast, otherwise this will tantamount to forward-looking statement. But we have added the capacity and our

expansion is complete. So, most of our sales will be through volume growth and our additional spinning capacity is also in place. So, that will lead to better margins and in the Q4 the sales have picked up drastically. So, we are not saying that there is any demand threat, per se.

**Resha Haria:** And then, it has already been two months into Q1 of FY18, so do you see that the growth momentum, the demand momentum of Q4 has continued in Q1 or has that sort of tapered?

**Ashok Bothra:** I think we should be able to sustain that level.

**Resha Haria:** And then post demonetization, has the wholesale channel recovered completely?

**Ashok Bothra:** If you see our sales, they are 100% through the banking channel only. So, we were not impacted but the end customer maybe dealing without banking channel. So, it was a temporary setback for us, but the sales post demonetization, once the liquidity issue was solved through the banking channels, our sales also restored.

**Resha Haria:** And what kind of margins can we expect because I think when the whole was planned, to set up a new capacity for the backward integration, the expectation was that the margins would go up to 18%-19% level. So, FY18 onwards can we expect that?

**Ashok Bothra:** There should be improved operating margin mainly due to in-house and higher availability of yarn, coupled with subsidy from State government and the market should be better as compared to FY17.

**Resha Haria:** So, you are saying that from let's say 15%-16% it, can move to 18%-19% or there about?

**Ashok Bothra:** I cannot say 18-19% but it will be better than previous years.

**Resha Haria:** And in terms of sales growth because you are saying that double digit sales, is this something that we can achieve?

**Ashok Bothra:** No, whatever growth we have achieved in FY17, it will be higher than previous year. However, there may be some jerks due to GST initially.

**Resha Haria:** And what is your outlook on cotton prices now, I mean do you see them moderating anytime soon?

**Ashok Bothra:** If you see the cotton price trend, it has increased in January, February then it got stabilized, then again there was a reduction in cotton prices and then it moved up. So, forecasting trend will be a bit difficult and it depends on the monsoon. If there are good sentiments, there will be some revival and we will not witness major increases in the cotton prices. But if there is subdued monsoon, then the prices will escalate.

**Resha Haria:** And in US, it is said that this time the cotton harvest is probably the best in the decades. So, there would be a good supply globally for cotton, so would that also bring down the prices of cotton in India or are the cotton prices in India insulated and is there some sort of an import restriction policy?

**Ashok Bothra:** There is no restriction as of now. Everything depends on the economics of the price. So, if we see that the landed prices of the imported cotton are cheaper, we will go for imports, otherwise if domestically cotton is available at a reasonable price, we will go for domestic supplies. So, if there is a bumper harvest globally, it will keep check on the Indian prices also. So, globally we are living in perfect market conditions.

**Resha Haria:** And then just one book keeping question. What would be our average realization of denim fabric for the full year FY17?

**Ashok Bothra:** It is roughly around Rs. 135 per meter.

**Resha Haria:** And what would be our maintenance CAPEX going forward?

**Ashok Bothra:** No major CAPEX is planned as of now.

**Resha Haria:** No, this I am talking about the maintenance CAPEX?

**Ashok Bothra:** So, repair CAPEX will not be much.

**Resha Haria:** What was your CAPEX for the full year FY17?

**Ashok Bothra:** So, we will be uploading the balance sheet on BSE, you can take from there but it should not be more, looking at our block.

**Resha Haria:** And there has been a sharp increase in our depreciation cost this quarter. So, 35 crores, is this a run rate that we can expect because new capacity has come on stream.

**Ashok Bothra:** If you see, we announced our capacity expansion in the previous quarter. So, depreciation in FY18 will be slightly higher, owing to this expansion. The depreciation is expected to be anywhere between 130 crores and 140 crores.

**Resha Haria:** And again, there was a sharp rise in the operating cost. So, what really constituted this sharp rise in operating cost?

**Ashok Bothra:** So, if you see there is an increase in the topline also. Percentage wise, it is nearly at the same level. If you are comparing with Q3.

**Resha Haria:** And then, for the new CAPEX, all our loans are under TUFF. Do we get the capital subsidy?

**Ashok Bothra:** No, we will get 3 types of major subsidy – VAT, electricity and interest subsidy. No capital subsidy.

**Resha Haria:** So, what will be our average interest cost going forward?

**Ashok Bothra:** For new loan, we will get a subsidy around 5% and if you see our average cost, it is between 11% to 11.5%.

**Resha Haria:** Any new loans?

**Ashok Bothra:** New loan will be around 250 crores.

**Resha Haria:** With that, you are getting an interest subsidy of 5%, right?

**Ashok Bothra:** Yes, 5% only.

**Moderator:** Thank you. The next question is from the line of Shivam Vashi from Sunidhi Securities. Please go ahead.

**Shivam Vashi:** Sir, what was your denim sales volume in Q4?

**Ashok Bothra:** It will be around 22 million, roughly.

**Shivam Vashi:** And how much was it in Q3, sir?

**Ashok Bothra:** It is around 14 million.

**Shivam Vashi:** Sir, your shirting volumes for the quarter?

**Ashok Bothra:** It is around 2.4 million in Q4 and around 1.7 million in Q3.

**Shivam Vashi:** And sir, what was the cotton price for the quarter and that during the year and how do you see it going forward?

**Ashok Bothra:** Cotton prices, when the season started, the price was around 36,000-37,000 per candy. Now it has stabilized around 44,000.

**Shivam Vashi:** That is during the quarter or during the year?

**Ashok Bothra:** During the quarter.

**Shivam Vashi:** So, I just take the prices, which at the beginning of the season was 36,000 and stabilized at 44,000, right?

**Ashok Bothra:** Yes, now it's at a similar level, since the last two months. If there will be decent monsoon this year, then it will remain at a moderate level, otherwise it will see a sharp increase in the price.

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

**Ronak Rathi:** Sir, my question is, if we compare the quarter results on a YoY basis, there is a substantial increase in revenue but then our PAT is kind of flat, any specific reason for that?

**Ashok Bothra:** So, in Q4, there was an increase in cotton prices. So, from 40,000 in Q3 it went up and still it is around 44,000 and there is time lag in passing on the increase to end customers.

**Ronak Rathi:** But sir, the cost of material consumed, even those figures are flat, if we compare year-on-year for the quarter?

**Ashok Bothra:** Cotton consumption, no.

**Ronak Rathi:** Cost of material consumed?

**Ashok Bothra:** No, it has increased by 1%.

**Ronak Rathi:** No, so what I am trying to say is that, as you said, there is a slight increase in cotton prices, so that has dented our margins. So, in fact cost of material consumed has decreased?

**Ashok Bothra:** No.

**Ronak Rathi:** So, it is showing 178 crores vis-à-vis 189 crores.

**Ashok Bothra:** No, you considered the changes in inventory also? So, there is an increase of around 1% on year-on-year basis.

**Ronak Rathi:** And sir, now we have expanded our capacity and we have also made some technology up-gradation due to which we will be able to supply value added denim products. So, can we expect to sell those value-added denim products from this financial year onwards and how will it be reflected in our realization rate?

**Ashok Bothra:** So, I do not foresee any major improvement in the sales realization per meter. So, efforts will be to get the same increase but there will not be a substantial rise in the realization per metre. Although we have got state-of-the-art machinery installed, it will be a gradual process.



**Ronak Rathi:** It will be a gradual process, sir? No major changes are expected in the financial year 2018?

**Ashok Bothra:** You should compare the PAT margin with our peers basically. So, that is one parameter. Sale realization per metre is another parameter. So, what matters most is the profitability, whether we are getting a lesser profit or higher profit. So, if you compare our PAT margin, it is in line with the industry peers. So, our PAT margin is nearly same. In fact, EBITDA Margins are also at the same level with plus or minus 1% or 2%.

**Ronak Rathi:** No, sir I was specifically asking like going forward, as we will be able to supply value added products, will that not contribute to increase in PAT margins or increase in sales realization?

**Ashok Bothra:** Cost for material will also go up no? Otherwise peers would have had a higher PAT margin. So, that is one of the parameters you can say but now we must see whether the cost / metre will also go up.

**Ronak Rathi:** So, main contribution to our increase in PAT will come from the increase in volume or sales?

**Ashok Bothra:** Volume and higher availability of in-house yarns. So, focus will be on achieving higher operational efficiency.

**Ronak Rathi:** And sir, now the long-term debt figure is 422 crores, so is that the peak level we can presume or this number could go up?

**Ashok Bothra:** Long-term debt is around 480 crores, not 420 crores. 62-63 crore is recorded in current liabilities, under loans which should mature in the next one year. This is the peak level and over the year, you will see a reduction by 60-65 crores annually.

**Participant:** Sir, every year we can see the rate of 60 crores being repaid debt roughly?

**Ashok Bothra:** Roughly, yes.

**Participant:** And sir, due to VAT subsidy, how much benefit can be accrued in this financial year?

**Ashok Bothra:** Profitability will be higher due to the subsidies.

**Ronak Rathi:** And sir, this subsidy will continue for how many financial years?

**Ashok Bothra:** For next 5-7 years.

**Ronak Rathi:** 5 to 7 years. Sir, can you just give a basic modus operandi of how this subsidy works with regards to the VAT?

**Ashok Bothra:** So, whatever purchases you are making from the State, you will get a certain percentage of refund from the government.

**Ronak Rathi:** As per the GST rates, the government will be giving some subsidies, right?

**Ashok Bothra:** As of now there is no clarity on this. First of all, the government needs to declare the rate on of GST on textile sector.

**Ronak Rathi:** Sir, there's lot of talks going on like due to GST, there would be a lot of migration from unorganized to organized sector. So, is that an opportunity for denim manufacturers? Also, are there many unorganized denim manufacturers in the market?

**Ashok Bothra:** So, earlier there were less overheads on the unorganized sector. So, if they migrate, they'll have to mandatorily incorporate the GST mechanism. So, organized sector will get benefited from that because unorganized sector's cost of production may go up due to compliance cost of GST, etc.

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

**Prachi Dave:** I just read that there would be some Textile India Conference in Ahmedabad, which would be organized by the government itself. So, are we going to participate in it and do you foresee any volume increase because of that?

**Ashok Bothra:** So, it will have a positive impact if you participate in the seminar. So, there will better visibility.

**Prachi Dave:** So, we are participating?

**Ashok Bothra:** We are planning to participate.

**Moderator:** Thank you. We take the next question from the line of Vinod Malviya from Florintree Advisors. Please go ahead.

**Vinod Malviya:** In this quarter, the depreciation and interest costs have increased substantially. I believe it is largely because your capacity has come on stream. So, the depreciation in the current quarter was 35 crores. Will that be the same going forward?

**Ashok Bothra:** Roughly it will remain at the same level.

**Vinod Malviya:** Even for the interest, 17 something like that?

**Ashok Bothra:** Yes. But interest will be on declining trend because old loan is getting repaid and large portion will be of new loans.

**Vinod Malviya:** And sir, out of this 110 million metre, can you operate at 90%-95%? What is the maximum operating rate you can achieve?

**Ashok Bothra:** Theoretically, we can operate at 100%.

**Vinod Malviya:** So, you can always produce 110 million meters?

**Ashok Bothra:** It depends again, theoretically I am saying but there is break down and maintenance.

**Vinod Malviya:** Because in your presentation you have mentioned that you have already achieved 84% utilization levels, so I was just wondering this figure.

**Ashok Bothra:** So, we can safely go to 90%.

**Vinod Malviya:** So, in case you reach the 90% level, then max to max though it would be around 8% in FY18, right because 84 going 90?

**Ashok Bothra:** No, but 84% we achieved, the lesser utilization was due to demonetization. Second thing like for the full year, expanded capacity was not available to me. So, this is a wild guess that 8% will come through expanded capacity. So, the benefit expansion will be visible in FY18.

**Vinod Malviya:** And just on the tax rate front, what would be the effective tax rate for you in FY18-19?

**Ashok Bothra:** So, it is around 33%-34%.

**Vinod Malviya:** So, that would be the entire corporate tax, with no MAT over here?

**Ashok Bothra:** MAT again, it depends. This year whatever MAT we had paid, benefit of that will be available to us.

**Vinod Malviya:** Next year is FY18, right?

**Ashok Bothra:** Then credit needs to be carried forward.

**Vinod Malviya:** Sir, last thing I just wanted to understand on the margin front, there is some pricing pressure at the industrial level, right. Your cotton prices have been increasing but your gross margin does not seem to be coming down in this quarter as well. So, if I look at it sequentially, your Y-o-Y, there is hardly any drop in the gross margin. When I look at the peers' margins, they have taken a hit in this quarter.

Ashok Bothra: So, you should ask them.

Vinod Malviya: Yes sir, I am just trying to understand what has enabled you to outperform the entire industry?

Ashok Bothra: No, which company you are talking about.

Vinod Malviya: Sreelakshmi is there.

Ashok Bothra: Then?

Vinod Malviya: And then there is one more, Aarvee is there, both the companies have reported bad numbers.

Ashok Bothra: So, did you ask them their cotton procurement strategy?

Vinod Malviya: No.

Ashok Bothra: Then?

Vinod Malviya: But you said that your raw material cost was high in this quarter?

Ashok Bothra: That is true. I am talking about the price stand in general. If you procure, if you maintain stock substantially for example at a lesser price in the current scenario of increasing price trend. So, this will lead to a difference in reported margin.

Vinod Malviya: So, your strategy generally is to hold for something like 3 to 4 months?

Ashok Bothra: It depends and 2 to 4 months you can say.

Vinod Malviya: And this time, I believe you have procured more cotton because you had a view that cotton prices will increase?

Ashok Bothra: Again, it depends on our in-house view. What is our view on the cotton trend and then we stock our cotton and we review this on a regular basis.

Vinod Malviya: And was there any benefit, I mean the benefit of backward integration. Did it start accruing in this quarter? Will we see the benefit in FY18?

Ashok Bothra: We got our spinning capacity in place at the end of Q3. So, we are in the process of stabilizing our production. So, we are forecasting better margin in FY18. Again, the impact of GST needs

to be worked out. If the period becomes like demonetization, then for 2 or 3 months, the sales may take a hit.

**Vinod Malviya:** And how was your exports business for this quarter, numbers wise?

**Ashok Bothra:** Exports we did not do very well. In FY16, say exports was around 135 crores to 140 crores. This year it is around 90 crores.

**Vinod Malviya:** And what is the reason for that?

**Ashok Bothra:** One of the factors was strong Rupee.

**Vinod Malviya:** See, even for FY18 like considering the current Rupee price, exchange rate, the exports outlook looks bad for FY18 as well?

**Ashok Bothra:** I cannot say that but if I am getting better revenue profitability in domestic sector, I need not bother about export market but our continued focus is to get higher share from export, as a de-risking strategy.

**Moderator:** Thank you. As there are no further questions, I now hand the conference to Mr. Arun Prakash for his closing comments.

**Arun Prakash:** Thank you all for participating in the earnings call. Please get in touch with us in case you need any further information on the company. Our coordinates have been provided in the call invite that has been circulated as well as in the presentation. Thank you very much.

**Ashok Bothra:** Thank you.

**Moderator:** Ladies and gentlemen, with that we conclude today's conference. Thank you for joining us and you may now disconnect your lines.