sutlej
textiles and industries limited

SUTLEJ TEXTILES AND INDUSTRIES LIMITED
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CIN No. : L17124RJ2005PLC020927

20th June, 2018

M/s. BSE Limited Phiroze Jeejeebhoy Towers Dalal Street, Fort Mumbai 400 001 **Scrip Code: 532782**	**M/s. National Stock Exchange of India Ltd.** Exchange Plaza, 5th Floor, Plot No.C/1, G-Block, Bandra-Kurla Complex, Bandra(E), Mumbai 400 051 **Scrip Code : SUTLEJTEX**

Dear Sir / Madam,

Subject: Transcript of Financial Year ended 31st March, 2018 earnings conference call held on 15th May, 2018

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, kindly find enclosed a transcript of the earnings conference call for financial year ended 31st March, 2018 which was held on Tuesday, 15th May, 2018. The same is also available on the website of the Company i.e., www.sutlejtextiles.com.

The conference call held on 15th May, 2018, as per the Transcript enclosed incorporates mainly the highlights of financial results upto 31st March, 2018, and other related information which is already in public domain and/or made available / uploaded on the Company's website.

Please take the same on record.

Thanking you

Yours faithfully
For **Sutlej Textiles and Industries Limited**

Manoj Contractor

Manoj Contractor
Company Secretary and Compliance Officer

SUTLEJ TEXTILES AND INDUSTRIES LTD. * Bhawanimandi (RAJ.)

"Sutlej Textiles and Industries Limited Financial Year Ended 2018 Conference Call"

May 15, 2018

MANAGEMENT: SHRI. S. K. KHANDELIA – PRESIDENT AND CEO

MR. BIPEEN VALAME - WHOLE TIME DIRECTOR & CFO

Moderator: Ladies and gentlemen, good day and welcome to the Sutlej Textiles and Industries Limited Financial Year Ended 2018 Conference Call. As a reminder, all participant lines will be in 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 this conference is being recorded. I now hand the conference over to Mr. Bipeen Valame - Whole Time Director and CFO of the company. Thank you and over to you, sir.

Bipeen Valame: Thank you, Vikram and good afternoon to everyone. I welcome you all to the earnings conference call of Sutlej Textiles for the financial year ending March 2018. I have with me, Shri. S. K. Khandelia Ji – President and CEO and Stellar IR Advisors, our Investment Relations Advisors. The investor presentation has been uploaded on the exchanges and I hope everyone had an opportunity to look at the presentation.

This year has been challenging for the textile industry majorly on account of demand disruption due to the implementation of demonetization and GST. In domestic market the operating margins were under pressure on account of increase in input prices and raw material prices. On export front, we saw a strong Rupee which had an impact on the realizations but we believe that strong consumption story of India and revival of demand in textile industry will pave the growth to the company going forward. As per the international monetary fund (IMF) India is the world's fastest growing economy and is forecasted to grow 7.4% in FY2019 compared to 6.7% in FY2018. India's growth story is envisaged to live up the strong consumption demand and vanishing effect of GST and you must have realized that GST collection is also going up so there is a very positive sentiment and there is a revival going forward.

Coming to our financial performance, the financial year 2018 continue to witness subdued domestic demand as I mentioned earlier. Also the raw material prices and the input prices stood higher than the earlier quarter with Rupee appreciation it created more challenge for the export business. Just to inform you export incentive is also reduced by government from 11.5% to 2% which also impacted, this being taken as a GST input. Despite such challenges the overall export turn over for the company was Rs. 759 crores, I am excluding the turn over from the wholly owned subsidiary. For financial year 2018 against 622 crores in 2017 which showed the increase of around 22% year-on-year basis. During Q4 FY18 the company reported total income of 610 crores for financial year ended on 2018 total income stood at 2,510 crores which is 10% increase year-on-year growth against 2,285 crores in 2017.

Sales volume for yarn during FY18 was at 105,963 metric tonnes compared to 98,229 metric tonnes in FY17 at around 95% utilization of the mills. Home Textile production was 7.77 million meters in FY18 as compared to 7.17 million meters FY18 including job work at around

80%-81% utilization. We will be setting up the Greenfield expansion project for manufacturing of polyester staple fibre of recycling right now at Samba, Jammu and Kashmir. The project is expected to be completed in Q2 FY20. The project will help for a better quality, reliable supply and better cost. EBITDA for the quarter was at 53 crores with EBITDA margin of 8.63% for FY18. EBITDA was reported to 81 crores with an EBITDA margin of 11.2%. The company reported net profit of 10 crores for Q4 FY18 as compared to 16 crores in FY17. During FY18, Sutlej recorded a net profit of 113 crores as against 158 crores in corresponding period of previous year.

I would now request, Shri Khandelia Ji to share business outlook and industry scenario and then we can start question-answer session. Thank you and over to, Shri Khandelia Ji.

S. K. Khandelia: Thank you Bipeen and good afternoon to all of you. I am happy to be with you once again on this conference call and thank you all for joining us. Bipeen has mentioned about the various developments which had taken place during the year and we have been also been telling about various developments which took place throughout the year. I will not like to repeat all these things. But at this point of time many positive developments are emerging.

Number 1, the GST which created a large scale disruption last year is getting stabilized gradually and I hope that these disruptions are getting behind us and going forward it will be fully stabilized and will result in normalization of the demand which was disrupted because of the GST. Second thing, the Rupee which played a very strong spoil shorts for exports of all types of textile material due to over valuation is getting corrected in last few weeks and getting to the normal level and that will boast exports of not only yarn but all leather products which will generate demand in exports as well as in domestic market for yarn. Third is the normal forecast of the monsoon. You see in India for domestic demand normal monsoon is very much required because the rural demand which is huge depends on the normal monsoon. So, this forecast of normal monsoon will help us in getting the rural demand and which will boast overall demand of the textile material.

Last year in FY17-FY18, just before 15 days of the just start of the financial year we had commissioned our 35,000 Melange unit. We could not derive the full benefit in terms of bottomline of that new unit because of the bad market conditions. Though it had functioned fully and it generated required revenues but it could not generate required profits due to bad market conditions. Similarly, the Home Textile expansion which came at the end of FY16-17 was also could not generate the required benefit due to disruptions caused by the GST, the strong Rupee, etc. which has already been mention. But going forward these new capacities is expected to generate good profits because these are speciality products and are not commodity products and this should help us in generating better profits going forward.

We have decided to have one green fibre project for which Bipeen has mentioned and at present the discussions with the machinery suppliers are going on for finalization of the equipment's, drawings, etc. Once these are finalized we expect to start construction sometime in October and the plant should be operational sometime in Q2 FY19-FY20 that will reduce our cost of raw materials because most of the fibre produced will be consumed in house and this will also help us in utilizing the accumulation of the GST which we have. Then you see the since last one year and one and half year the demand has been very sluggish. So, basically in the overall system you see the downstream value partners, value chain they have been destocking basically. So, the pipeline is more or less empty. There should be the pent-up demand once the things get normalized and which should happen sooner than latter sometime from July onwards once the monsoon actual delivery of monsoon starts and the benefits of Rupees, the correction of the Rupee start flowing in.

So, from July onwards I think the demand should normalize. Because of the poor demand, so far we have not been able to increase, so far we have not been able to increase product prices to take care of increase in raw material cost to a large extent. So, the pricing power was badly eroded because of these bad market conditions but going forward that pricing power should revert back and we should revert to normal EBITDA level and that should be the even if you revert to the normal EBITDA level and taking into account the revenues which we have I expect the things will be much better. I have to add here one thing that despite all these disturbances throughout the year in FY17-FY18 we have been able to generate an EBITDA of 280 crores against Rs. 316 crores in FY16-FY17. Similarly, we have been able to run our plants to full capacity even Home Textile though some part was run on the job work that is why it could not generate the profits because it could cover only the expenses.

The new plants spinning Home Textile, the huge amount of depreciation interest was there and but because of the bad market conditions those could not be covered fully. But going forward the things will be normal and all these things will be behind us. So, I think the bad patch is getting over and slowly we are getting into the normal position. I expect it should start from July onwards. We could do so because we are in specialty yarns we are not in commodity yarns. So, we still despite all these challenges we still we could do better otherwise things would have been very difficult. Sometimes these challenges are opportunities also during this period we have developed many new varieties of the yarn. We have developed Latin America, new customers in Latin American and other markets we have developed some customers in Russia, Japan also.

So, this challenge has given up some opportunities and the results of which will be available going forward. Because initially say similarly in Home Textiles, initially lot of samplings are required to be done which is going on and it is a long process from sampling to commercial orders. In case of particularly Home Textiles because sampling then small load then little bigger load then the commercial orders. So, but those processes have been on and that will add value to our Home Textile. Our acquisition of ASM is only about 5 months old but going forward it will also help us not only directly by ASM but mainly it will help us to developing our product portfolio and sales in USA.

So with these remarks, I thank you and I open the floor for question-answer.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session. We have a first question from the line of Awanish Chandra from Centrum Broking Limited. Please go ahead.

Awanish Chandra: Sir, both of you have started and saying in your commentary that demand environment was not good and if we look at mini macros in other industry as well. Many places we see good demand even many companies has reported at least sales growth, margin has been an issue. So, just wanted to have more insight on your commentary on the demand? Why demand environment is so poor?

S. K. Khandelia: Yes, you see as compared to other industries, textile is totally different. Because the value chain in textiles after its spinning is mostly on unorganized sector, un-fragmented. So, they have been finding lot of difficulty and complications in complying with the GST. Where is in case of other industry things are little different. Secondly, textile in say for that matter, fabrics was never subject to any sort of taxation like VAT and other things. So, they were never in any tax net. So, they are finding it difficult to get into that net. Then they were part of informal economy in the sense they were not keeping any basic records like that of for their credit rating and other things. Now, they need working capital from banks, which banks are hesitating because they do not have any credit history. So, those things they are getting over gradually but that was the major reason that the textile was the worst affected after the GST.

Awanish Chandra: So sir, I understood the GST part and many companies has highlighted that had been the problem in the past but now things have been recovering and demand and in many views demand has bettering by each passing month. So, I was really surprised on this commentary on the demand. So, is there any specific reason apart from the GST in your view?

S. K. Khandelia: Yes, you see in case of textiles about 35% of total product of textile whether it is yarn, fabric, garments taken together above 35% total production of fabric, yarn and garments which is exported. So, against say about our industry of $110 billion USD above $35 to $40 billion USD are exported. So, the strong Rupee over valued rupee during this year has played a very big spoil shorts. So, you see for example the exporters which were exporting fabrics to various countries and buying yarn from us, they stop exporting because they were saying that because of this Rupee parity we are not able to export. Secondly, in October the duty draw back rates were reduced substantially. So, they were not able to get those types of rates immediately, so that was taking time. As I have already mentioned in my commentary that we expect that the demand has started coming in but it will take some time before it gets normalized. So far revenues are concerned in our case you must have seen that our revenues have grown by 10%. So, revenues are growing but the margins were under pressure because of the various factors which has been mention and this we hope that the going forward the normal EBITDA level should, EBITDA margin should come.

Awanish Chandra: So, that I understood the raw material part because cotton and crude was higher even in the press release you have mentioned your power cost was pretty high. So, how was the power per unit during this quarter versus last quarter or previous quarter same year?

S. K. Khandelia: I think let the Bipeen give this figure. But so far power cost is concern, I would like to add one thing. That this year we had established 2.2 megawatt solar power project which has been very successful that was commissioned sometime in December or sometime like that. Now, we are exploring the possibility to have more solar capacity to reduce our power cost another thing is that we are discussing with the Rajasthan government particularly and other governments to reduce some of the charges. They have levied very huge charges in open assets making it non-viable. So, we are trying with the government to reduce those charges, so earlier we used to take benefit of open assets power which is no more we are able to take, and we have to take grid power only.

Bipeen Valame: So Awanish, just to give you the run down on the power cost. In power, in the unit like in city the power cost is increased by a small amount from I think 3.21 to 3.28. The major increase is felt is in Rajasthan in RTM unit. Another point what has happened is that the power cost, if you compare last year to current year the entire power cost of the new expansion came in this year that is 2017-2018.

S. K. Khandelia: That is the major part of increase.

Bipeen Valame: Yes, absolutely. That is a major part and this as you mentioned what has happened is that in IEX we used to see a benefit of some few paisa but that benefit has gone with a cross subsidy increase by the state government of Rajasthan. So, on IEX the trading is not happening. So, we are to buy from the state electricity board.

Awanish Chandra: And sir, though you have mentioned that you want to get back to the, your historical EBITDA margin but as I see crude is at higher level Rupee is not helping even many people has made commentary on the cotton prices that it is remained at the higher level. So, what is your expectation on these parts because nothing seems to be working as far as better margin is concerned?

S. K. Khandelia: See, the polyester rates have been continuously going up since last 8-9 months. And now the oil is about $77 US and something like that and it is expected to be $80-$85 also. And that may lead to some further increase in polyester prices. But the only question is whatever the raw material prices may remain, if the demand of the yarn is good you are able to pass it on to the market as we have been doing on the past. See, this is basically the golden rule is that the demand and supply of your finished product. If there will be demand of the yarn and demand of the yarn comes if there is the demand of the fabrics and garments and that too not only in domestic market but in exports markets. So, due to the factors which I had mentioned that the rural demand should come up, pent up demand should come up, Rupee has got corrected that should increase the export demand not only of yarn but fabrics and garment. So, once the demand is there you see what is the mismatch? Demand supply mismatch comes even with the 2% to 3% plus minus. Now, if some demand picks up we get the pricing power and then increase in the cost is passed on to the market. And we hope that going forward the same situation should come and the margins should return to more or less to the normal level going forward. It may, it maybe from July onwards.

Awanish Chandra: Because sir, we used to have that 14%-15% margin we had which has come down to 11.2% now …

S. K. Khandelia: I think, the expanded capacity it was the first year for the expanded capacity. As there are some teething trouble our market expanded capacity came at a time when the markets where bad. So, these are the things and then the lot of sampling because we are in a specialty yarn, say like Melange yarn. So, lot of sampling is again involved there. But we have developed and these things going forward around 14% EBITDA margin we used to have. We should be able to achieve going forward.

Awanish Chandra: Just last question on raw material side. Sir, you have the same view on the cotton or do you see that cotton prices will come down?

S. K. Khandelia: Cotton prices are likely to remain, no. It is not likely to come down because the future months are the off season that is likely to remain range bound in my opinion it should not go above 44,000.

Moderator: Thank you. We have a next question from the line of Manish Ostwal from Nirmal Bang Securities. Please go ahead.

Manish Ostwal: My question on the demand scenario both domestically and globally. And globally how do you see demand scenario for FY19 and secondly this volatile currency, how it will impact our export revenue?

S. K. Khandelia: You see, the currency was overvalued earlier is I already mentioned it is getting corrected and the reason of correctional basically two. One, India is a big importer of oil, so since the oil prices have gone up our requirement of foreign exchange increase. Secondly, foreign portfolio investments have been negative. So, these factors have corrected our Rupee which was overvalued because of lot of FDI ...

Bipeen Valame: And that was increasing the rates continuously.

S. K. Khandelia: So, now I think that volatility is of course is always there in everything. But I think, that the type of problems which we have faced last year due to the overvalued Rupee should not be there this share in my opinion because of our balance payment is deteriorating and crude is also heading towards $80-$85. So, these things should keep on putting pressure and FBI investments are not there. That is negative. So, I think these things should not allow the Rupee to appreciate which happened last year.

Manish Ostwal: And your comments on demand scenario, sir?

S. K. Khandelia: Yes, demand as I have already explained in detail. There many factors we should push the demand like the normal monsoon is forecasted. So, that will result into rural demand pipeline is empty, so that should result into the pent-up demand once these GST related, now the things are getting stabilized. Third in case of exports and export related other textile products not only of yarn it was only because of the overvalued Rupee that has been getting corrected. So, all these things generate demand not only domestic market but in export market also. And even 2-3 demand is, 2%-3% extra demand is there the sentiment gets totally changed.

Manish Ostwal: And lastly, one small data point what is the average cost of raw material per Kg in quarter 4 and FY18?

S. K. Khandelia: You see we are using cotton, polyester, acrylic many types of raw materials we are using. We will give you separately because there is a long chart of the raw materials. So, we will inform you separately.

Manish Ostwal: Can you give us cotton price per Kg, sir?

S. K. Khandelia: Cotton price for the last year as a whole?

Manish Ostwal: Yes, last year as a whole and quarter 4 FY18, sir?

S. K. Khandelia: We will give you, our price was because in cotton there has not been major fluctuation and this initially I say it is started with the 38,000. Their operative is around 40,000 per candy spot price. 40-42-43 it is moving like that only. So, there has not been any wild fluctuations so far cotton is concern.

Manish Ostwal: And lastly what is your CAPEX guidance for FY19?

S. K. Khandelia: CAPEX 2019, we will be as I mentioned that will be spending for this green fibre project?

Manish Ostwal: Yes.

S. K. Khandelia: And then our regular modernization and expansion and other things will be there. This year we are likely to expand total Rs. 95 crores which will improve this green fibre project expenditure as well as modernization, debottlenecking, etc. Because we never comprise on modernization and other things.

Moderator: Thank you, sir. We have a next question from the line of Prerna Jhunjhunwala from B&K Securities. Please go ahead.

Prerna Jhunjhunwala: Sir, I would like to understand the demand in the Melange yarn segment, how it has been in the last one year and how do you see it going forward?

S. K. Khandelia: You see, demand was weak in last year in the Melange yarn segment. The simple reason is that the garment exports is down by about 8% instead of growth. And that was mainly because of 2-3 reasons. One was because the garment exporters are not very big, so GST was a disruption. Then their refunds, IGST refunds on exports was held up they were facing the working capital crunch, so they were not able to buy and export the material. Third was the strong Rupee. So, due to all these reasons garment exports was down by about 8% that resulted in lesser demand for the Melange yarn but going forward all these things should be over.

Prerna Jhunjhunwala: Sir, have the refunds started moving faster than earlier now? And our garment exporters comfortable because we keep on reading about the garment exporters that they are still not comfortable, and exports are still declining and there is no respite in the scenario.

S. K. Khandelia: But I think improvement is coming. You see ultimately one cannot afford to be out of the business for the long time and some of the problems, say IGST refund that was a big issue because they were short of the working capital. So, that has been taken care to a large extent by the intervention of the Prime Minister's office. And lot of IGST refunds has come, of course you see when the, such a huge revolutionary change like GST happens and that the everything is to be based online. It takes little time but the things are getting better.

Prerna Jhunjhunwala: And have you seen any changes with respect to garment exporters in terms of smaller players going out and the larger players gaining share. So, that because they are not able to comply with GST?

S. K. Khandelia: Some consolidation has always been taking place in textile industry and you see the every garments exporter except last year used to increase their capacities not only by the consolidation but also by the expansion. So, both there is a scope for both. There is some big garments also have, big garmenters have the scope smaller also have the scope for specialty products.

Prerna Jhunjhunwala: And the domestic demand for garments with respect to Melange yarn, how it has been? Or domestically it is not used much?

S. K. Khandelia: Overall domestic demand was impacted last year. And due to that of course whether it is Melange or whether it is synthetic or whether it is cotton everything was impacted last year. So, I think there as I have mentioned in detail about the various reason that should improve the demand going forward

Prerna Jhunjhunwala: Sir, last question would be on the recycle PSF plant. How much percentage would it contribute to your raw material consumption, percentage replacement or something that you can guide us and what kind of improvement we can see in the margins because of that project being implemented?

S. K. Khandelia: You see our capacity is 80 tonnes per day. And whereas our total raw material consumptions taken all together is 300 tonnes per day, whether it is synthetic, cotton and everything and so 80 tonnes of synthetic raw material which we are using at present will be replaced by this 80 tonnes.

Prerna Jhunjhunwala: So, the entire synthetic consumption would be replaced with …

S. K. Khandelia: our synthetic consumption should be about more than 160 tonnes per day

Prerna Jhunjhunwala: And what kind of delta it gives in the margin by usage of this product?

S. K. Khandelia: Margin, I think that you see at present we are buying from the market. That results into the freight, commission and other things and then the profit margins. So, I think it should result in the margin of about 5 per Kg.

Prerna Jhunjhunwala: Increase of Rs.5 per kg because of internal manufacturing as compared to procuring from outside.

S. K. Khandelia: We will say that about, 780 tons of 4 lakhs per day and say about 125 lakhs a month something like that around that. Because the bottle prices which keeps from fluctuating very much and that polyester prices also keeps on fluctuating. So, taking all these account I think it should result into benefit of 100 lakhs to 125 lakhs a month and GST utilization.

Prerna Jhunjhunwala: And the GST rate on bottle consumption has been reduced it is now at 5% against …

S. K. Khandelia: It is 5% that is why we will be able to use our GST accumulation which we are having so that will also …

Prerna Jhunjhunwala: So, that also gives you an advantage because virgin fiber is tax at 18%.

S. K. Khandelia: Yes.

Moderator: Thank you. We have the next question from the line of Ritesh Poladia from Girik Capital. Please go ahead.

Ritesh Poladia: Sir, like to have your comments on your USA acquisition. I believe your yearly run rate of turnover would be about 50 crores-55 crores. So, how would you like to see this over 2-3 years?

S. K. Khandelia: It is only 5 months when we acquired this ASM. So, now they have started in this month of, I think sometime in June they will be having new launches, so going forward I think that their turnovers should increase to about in 3 years' time it should be about say $20 million USD in 3 years' time 20 million means about 135 crores-140 crores.

Ritesh Poladia: And likely margin on that?

S. K. Khandelia: See, gross margins are about 30%. And net margins …

Bipeen Valame: This EBITDA margin will be around 9% to10%.

S. K. Khandelia: EBITDA margin will be about 9% to10%.

Ritesh Poladia: Sir, your borrowing on the standalone is being almost flat at 947 crores but the interest cost has jumped big way, it has gone up from …

S. K. Khandelia: You see, that borrowing included the non-borrowed last year for the new projects which we like 35,000 spindle Melange and Home Textiles. So, till those were commissioned those were capitalized. But now the full interest is there this year.

Ritesh Poladia: Sir, their borrowing has remained same on March 17 to March 18.

S. K. Khandelia: No you see last December for example last year I borrowed say 200 crores for my expansion project. But since the project was commissioned in the end of March the entire interest of that because it took one and half year to complete that project?

Bipeen Valame: So, just to add to what Khandelia ji said if you see whatever we have given the declaration the borrowing cost has remained more or less in same range. In fact, in CPV also got very competitive rate that is on working capital side or our borrowings are linked to MCLR and even term loans also after tuff benefit we are having very competitive borrowing as on date. Another point is that we are also having a repayment. So to answer your question the borrowing remain more or less same means we are having a continuous 90 to 100 crores repayment.

Ritesh Poladia: And one final question out of 7.7 million meters of your Home Textile, how much would be on job basis?

S. K. Khandelia: In 7.7 million, job basis is 2.6 million or 2.58 in current year compared to last time 2.29 million meter.

Ritesh Poladia: So, this one third of your production is almost on no profit no loss basis or absolute marginal profit base?

S. K. Khandelia: Because it covers only variables.

Moderator: Thank you, sir. We have next question from the line of Dimple Kotak from SKS Capital and Research. Please go ahead.

Dimple Kotak: Sir, with crude prices increasing as you mentioned in initial commentary that you are not able to pass on the prices immediately. So, how do you think that the margins will show up? And secondly, what is the current status for destocking? Is it still going to continue may be in a declining trend or is it over? Because online is, there is no stoppage in that. It is going to continuously increase. So, if you can just share thoughts on that?

S. K. Khandelia: So for crude oil prices are concerned you see it is passing is only because of the market conditions we could not pass on. So, crude oil is already about say last year in the last quarter it was continuously going up. So, it is already $77 per barrel around that. And it is not likely to go ahead more than $80- $85 at present. So, once the demand picks up we should be able to pass on the increase.

Dimple Kotak: Sir, when do you think the demand is going to fix up like previous trend? Do we think the order book which we had before destocking, before GST, before these disruptions coming, will we be able to achieve may be not this year but next year?

S. K. Khandelia: No, you see, there are two parts. As I mentioned that the pipeline is already empty. And the destocking has already taken place. And no more destocking is likely to place in the value chain. There is no scope for any destocking. There should be only positive side there should be a pent up demand and should increase. So, far we are concerned we do not have any extra ordinary stocks. Whatever we have been producing we have been able to sell. Of course, the margins were less but we have not increased much of these stocks.

Dimple Kotak: And sir what about the price points? Will we be able to pass it on by when can we take a hike?

S. K. Khandelia: That is why I said that if the demand comes to the normal level going forward there should definitely be improvement in passing the increased costs.

Dimple Kotak: What would be your break up with exports and domestics, in terms of topline?

S. K. Khandelia: Our export is 30% and domestic is 70%.

Moderator: Thank you. We have a next question from the line of Sagar Shah from KSA Securities. Please go ahead.

Sagar Shah: My first question was regarding to the Home Textiles business, sir. Home Textile business I am witnessing it something like we did EBIT loss actually for the full year also if we take into account. So, something like can you explain something like the factors that you had said before such as GST, Rupee appreciation, high cotton prices. So, these are the same factors for the Home Textiles deterioration of the business?

S. K. Khandelia: There are various factors. You see the Home Textile expenses were completed in last quarter of FY16-2017. All the expenses are there whether it is depreciation, whether it is interest whether it is operating expense all have gone up. But because of the bad market condition the revenues could not be generated because as mentioned that more than 25% more than one third we have been going job work. So, in that we are hardly able to cover the variable expenses. We could not cover the depreciation other things. So, EBIT has gone down. So, that is the main reason once the entire capacity goes for the normal utilization of the, our own product instead of job work the things will be much better.

Sagar Shah: So, going ahead something like, so as you had said before from July onwards you are **seeing** maybe the normalization of activities in the business?

S. K. Khandelia: It will start definitely but it will take some time in case of Home Textile normalization will start you see, if you see before the expansion we were positive. See the 2015-2016, 2016-2017 before the expansion we were positive. But once the expansion took place the entire expense the things, an entire infrastructure and everything has gone up. So, once that capacity is fully utilized for our own production and of course as you enquire that the normalization will definitely should start from July onwards and going forward every quarter it should improve.

Sagar Shah: So, is this the same outlook for yarn business also the normalization of EBITDA margins?

S. K. Khandelia: Yes, yarn business also I said that from July onwards that normalization process should start because benefit of correction of Rupee and other things will start flowing from July onwards and similarly the demands which monsoon and other things will generate will from July onwards. So, from July onwards normalization process of EBITDA margin of yarn should also start.

Sagar Shah: And sir, my last question was regarding to, as per your acquisition of an American company actually, so something like I think the transaction got finished, I think in the third quarter, if I am not wrong.

S. K. Khandelia: Yes, November.

Sagar Shah: So, something like the American Silk Mills you had acquired. So, something like can you throw a light on that acquisitions, how will it be see some revenues into that in FY19?

S. K. Khandelia: First, we have already consolidated our 5 months results and the revenue for the 5 months was about Rs. 23 crores, because during the process of this acquisition they have not been able to put up new products in the market, so now the first such a new product launching will be sometime in June, I have already mentioned in my question-answer that going forward quarter-after-quarter the revenue should go on increasing.

Sagar Shah: So, I mean something like in US actually we have been talking to some various managements they are saying that there has been problem in the Home Textiles business especially in the brick and mortar business of especially US. So, are you facing any problems on that side?

S. K. Khandelia: I think this is a very generalized statement, I think USA economy is doing well and there can be structural changes sometime, but overall demand is actually growing by 2%-3%.

Sagar Shah: Yes, overall demand is there but it is more on something like on the e-commerce front.

S. K. Khandelia: No, in case of this curtains, upholstery that the business, it is a design business. So, it is not a standard design every time and then we have the specialist channels for its marketing. They are in contract business, we are supplying to airlines, we are supplying to yachts, so these are the specialized for which they do not go for online.

Moderator: Thank you, sir. We have a next question from the line of Pratik Roy from Stewart & Mackertich. Please go ahead.

Pratik Roy: Actually, I have only three question, that one is on CAPEX front, one is on margin front. You peoples are just going for a Greenfield project recently, so can you please throw some light on the how this project will be funded in near future?

S. K. Khandelia: You see the funding of this project is about 30% is our own funds and about 70% is the term loans.

Pratik Roy: And how that will impact the EBITDA margin as you said that delta will increase by 5% after this Greenfield project, so what will be your thinking that this will impact your margins 70% term loan?

Bipeen Valame: So, let me just explain what we were trying to discuss earlier, I think there is some misunderstanding. What we said is that the project cost is 110 crores out of that 70% will be funded by these 77 crores or 78 crores. Our debt profile, our debt is not much on the books. So, 70 crores additional debt will not impact any of these ratios, debt equity ratios. Point number 2, what we mention that these most of the entire consumption was as Khandelia Ji was trying to explain that will happen is a captive consumption because our own requirement of the recycle fiber is much high, so that we will be able to consume it. Third benefit he explained earlier was that it was reduced our cost and reliability because we require a high-quality fibers, so that quality is ensured and since on the bottle there is a 5% GST we will be have the higher utilization of accumulated GST in Trans-1. So to answer your question it will have an impact in terms of reduction in cost side better reliability and better utilization of GST and there is no marketing involve. Because we are supplying to our own mills because they require that for day-to-day operation.

Pratik Roy: It is a kind of backward integration right?

Bipeen Valame: Yes, you are right.

Pratik Roy: And the one more thing that you people are generating revenue 30% from the exports and 70% from the imports, so what is the margin for export business and what is the margin for domestic business, if you can give idea?

S. K. Khandelia: You see normally export results into some better margin to some extent, not very high margin. You see, if there is an average and say 14% it may be that in export we go by 15%-16% because in case of export the entire world is our market and there we have the bigger opportunity to sell the value-added products. So, the margins are little better in case of exports.

Pratik Roy: And one thing sir, recently the new implementation of this duty drawback is that impact in your export business and these duty drawback come down to 4%, so is that impact your business for exports?

S. K. Khandelia: No, you see initially did impact, but you see after some time the correction in the export prices started and as of now by this time the prices have corrected. So, it is at this point of time it is not impacted.

Pratik Roy: And we are expecting a good demand in the pipeline from July onwards right?

S. K. Khandelia: I think so.

Moderator: Thank you very much, sir. We have a next question from the line of Hardik Solanki from MoneyBee Investment. Please go ahead.

Hardik Solanki: As far as Home Textile business is concerned, my 9 month revenue EBIT was 0.72 crores and if look at the full year we have made loss of 5 crores. So, in last 3 months or last quarter where there was a major down in EBIT level the loss part?

Bipeen Valame: So, basically the impact what we saw in last quarter is the drop in the realization in domestic market that is the January, February, March. Point number 2 was that the utilization even on the Job work remained on a lower side and overall production remain on the lower side in the last quarter that is quarter 4 Home Textile. The third impact was the coal price increase we also saw significant increase in the coal prices which also impacted. So, there is an input cost increase their production utilization was on lower side and per meter sell price is where remain depressed because of this some still effect on after GST we, this is the discretionary economy so that still continued the same impact, so that we saw a major impact there.

Hardik Solanki: And sir, as far as my yarn business is concerned, I am running at 95% utilization, right?

S. K. Khandelia: Yes.

Hardik Solanki: So, what would be the optimal utilization trade because in what would be the topline growth we can expect in volume side, volume wise?

S. K. Khandelia: No you see, utilization is one part. Another is depends upon the product mix which time-to-time market requires. So, 95% utilization is the one of the best utilization which we can have because remaining 5% is taken care of by the regular maintenance and then the product changes, load changes which are normal. So, 95% utilization is supposed to be one of the very good utilizations. So, far volumes are concerned it depends upon the product mix. Suppose, if there is a demand for the, say you can say thick yarn, Corser count. The production and volume will go up. If there is a demand of final count, so it depends upon the type of the product mix which we are able to run during the year based on the market conditions.

Hardik Solanki: Sir, what I understand is the major increase in revenue would be from the product mix going forward?

S. K. Khandelia: The new capacities though they have been generated the revenue, but they may improve some revenue. But in the existing business because if the capacity is full product mix is more or less normal that can be (+/-5%). So, that can be I think the revenue growth will not be very high going forward may be 4% to 5%.

Hardik Solanki: And sir, what EBIT or EBITDA we are expecting in Home Textiles business in ASM and also in domestic?

S. K. Khandelia: We do not give any figures about that. But we expect that the things will be better going forward.

Hardik Solanki: And sir, as far as IndAS is concerned even lot of unorganized marketing, unorganized organized market, so upholstery and curtain business. So, how are we planning for establishing or launching our own brand and to be in B2C business?

S. K. Khandelia: See, at present we are selling only through the distributors. Basically, it is a new line of the business, going forward we may consider the branding and other things.

Moderator: Thank you, sir. We have next question from the line of Nishna Biyani from Prabhudas Lilladher. Please go ahead.

Nishna Biyani: Sir, just wanted to have a FY18 total export incentive figure. Last year it was 48 crores what was the export incentive figure for FY18 full year?

S. K. Khandelia: It is 34 crores. Now it has come down due to the rate reduction from October.

Nishna Biyani: So now this 34 crores would be a steady number from here on, right?

S. K. Khandelia: Yes, it will be steady fiber.

Nishna Biyani: And when I look at the imports of both manmade fibers and cotton yarn from Bangladesh, post GST that is started to go up right?

S. K. Khandelia: The base is very low, in case of initially it is started going up initially and then there was some corrections and other things, so cotton yarn is not imports, some garments are of course being imported from Bangladesh because of our FDI arrangement with the Bangladesh due to some political consideration and other things but the base is so low. If you take into account our total production and their imports from Bangladesh it is bigger. Of course, initially it has drawn the attention, but I think it is getting corrected to some extent. So, I do not think it is impacting much. Import from Bangladesh is not impacting much.

Nishna Biyani: And when I look at your balance sheet for FY18 and I see that your receivables are gone up. So, is it because of GST impact that the cash crunch was observed in the system or is it now going to be a recurring?

S. K. Khandelia: No, we do not have any cash crunch, you said receivables have gone up.

Nishna Biyani: Yes, receivables.

S. K. Khandelia: See, receivables have gone up because in the March the dispatches were comparatively higher and then the of course the money market was tight, so some effect is there and some effect in the March dispatches were higher.

Nishna Biyani: So that is the one-off kind of things right and it will again get back to the 70 days kind of working capital cycle.

S. K. Khandelia: Yes it is one-off things only. It is getting, which is again you see at the year-end people have the problem of the funds, downstream people because this was the first year of the GST and they do not have much of the bank balances and other things at the year-end particularly.

Nishna Biyani: In fact, the channel checks also there is the same thing that the working capital in the system is block in the entire chain right from the yarn to the viewer to the knitter. The money is hard to come by.

S. K. Khandelia: Year-end it was the specific, but we do not have such type of problem in the year-end of course it was some increase was there in the receivables. As I mentioned that dispatches were more in March and secondly because of the tight money conditions and third because of the accounting year ending. But otherwise throughout the year we have seen that of course the tightness was there, some increase was there but overall we, ours was more or less normal.

Nishna Biyani: And when I look at the cotton inventory it is only 2 months this point in time and …

S. K. Khandelia: Actually some cotton always remains to be received though the contracts has been done and other things. So at the end of March we have 90 days cotton inventory.

Nishna Biyani: So, that should be kind of comforting up to October.

S. K. Khandelia: Yes, our present cotton stocks are lower than the present market rates.

Nishna Biyani: And sir, I do not know whether you can share, how has been the first 45 days of this current quarter been like Y-o-Y are you seeing some traction coming back?

S. K. Khandelia: In this 45 days, except you see the new contracts of the exports which are having better margins but when the goods will actually because some time in June end or July. So, the benefit of that will be flowing in the July quarter. This quarter of course the margins which are in recent bookings of exports and even some pricing power has come in domestic market in last 15-20 days. We are seeing some improvement in last 15-20 days. But the impact of this same in the results will be felt sometime in July.

Nishna Biyani: And sir, if you could just let us know your FOREX policy in terms of when you receive the order the kind of thing is it 40% covered, 80% covered or 100% covered?

S. K. Khandelia: 100%, we remain fully hedged.

Nishna Biyani: So, no surprises on the FOREX front can come from your side?

S. K. Khandelia: We are only fully booked neither plus or minus. Whenever orders come we hedge fully.

Nishna Biyani: In FY18 sir, if you could just guide us on the CAPEX plan sir. What is the CAPEX plan for FY18 looking like?

S. K. Khandelia: Yes, we had mentioned that it is, CAPEX, total CAPEX will be about 95 crores which will include the capital expenditure on the Green Fiber project as well as on the modernization, debottlenecking, etc. So, this is the normal expenditure which we normally have every year except green fiber project which is included here. 50 crores to 60 crores is our normal expenditure on modernization, etc.

Nishna Biyani: And sir, if you could, I do not know FY18 if you could share your BTM numbers, sir? FY18 what is BTM done for the full year and how the margin are, are they now getting back to the core margins which the company as a whole …

Bipeen Valame: So, generally what happened is that all for the yarn business we do not separate out on the per unit basis to be fair. To answer your question in case of BTM before we actually acquired the margins were on lower side, after acquisitions a lot of spindleage was given on the higher end yarns, higher end products. So, we actually got better EBITDA and even in last couple of quarters we are seeing a recovery there. So, we actually BTM …

S. K. Khandelia: BTM is running well.

Bipeen Valame: Absolutely, is doing well.

Moderator: Thank you, sir. We have a next question from the line of Siddharth Mohta from Principal India. Please go ahead.

Siddharth Mohta: Sir, can you please help me with the spread between cotton Melange or cotton blended tight yarn which is prevailing as of today and what it was 6 month back?

S. K. Khandelia: Normally, there is a difference of about 5% but since the synthetic was under more pressure this time, the spread was little better in Melange. But demand was poor as of Melange this year as I mentioned that the exporters were in trouble. But the difference between Melange and synthetic and other products is usually 5% and that was there this year also.

Siddharth Mohta: Sir, I was talking about the cotton Melange versus raw material that is cotton.

S. K. Khandelia: See, depends upon the type of Melange yarn it is a very vast category. And then the what type of blends is there, what type of sets are there, so you see the Melange can go to Rs. 600, Rs. 500, it can be even Rs. 300-Rs. 350. Whereas, the grey cotton remains the same which is on the dyes another things. So, some sets are as costlier as Rs. 150 dying charges. So, it depends upon the actual pattern which has run during the…..

Siddharth Mohta: And similarly the spread between the polyester viscos yarn and the raw material?

S. K. Khandelia: Polyester it again because we are mostly in dyed yarns. So, again it depends upon the type of the sets which we have done during that period. So, in case say, for example in case of heavy dyed sets the dying charges will be higher, at the same time rates will be higher. So, in general if I talk that the Melange spread is better than the synthetic.

Siddharth Mohta: And what you are saying depending upon the product mix there has been some improvement in the spread in both the cotton Melange as well as in the polyester viscos yarn?

S. K. Khandelia: Yes.

Siddharth Mohta: Sir, in the Birla Textile Mill, apart from our existing facility we were planning to put up another 29,000 spindle …

S. K. Khandelia: That has been deferred because the market condition has been very bad, and we wanted to keep our financial position strong. So, that has been deferred for the time being and our financial position, there is a criteria for us. We want always very strong financial position. So, since the market conditions are bad and then we decided to go for this green fiber project. So, we are first taking green fiber project for the time being that 28,000 project has been deferred.

Siddharth Mohta: And sir, my last question is with respect to our, the Melange yarn the facility that we have started in FY17. Sir, can you just help me that what percentage of that Melange yarn is still into the grey Melange yarn?

S. K. Khandelia: No, that 35,000 full capacity we were running on Melange, we could run on Melange yarn. We have not done any grey yarn there, but the problem is that since a lot of sampling and other things were involved. Initially, we had started because the workers are new, machines had to be set right, dye house is to be set right, sampling is there. So, we had started initially with the lower varieties of the Melange yarn which will normally going forward we are likely to leave and we will get into the superior quality of the Melange yarn. But we were not running any grey yarn in that unit.

Siddharth Mohta: So, then in that particular case how are this low variety of Melange yarn, so what percentage it was of our total capacity there?

S. K. Khandelia: It was about 75% capacity. In the sense that it is something like commodity Melange for the exports and other things say which anybody can produce. Normally we go by the orders only. We produce only ordered quality and those are in specialty Melange but that depends upon the sampling. So, during this year we have done lot of sampling. So, going forward, like in our Kathua unit, we have the specialty Melange. So, those specialty Melange going forward will be here also.

Siddharth Mohta: And eventually this 70%-75% it would be converted into the high value-add Melange yarn?

S. K. Khandelia: Yes, going forward. It will take. It cannot be at one stage, but it is going forward it will be in a year and one and a half years.

Siddharth Mohta: And sir, can you also update me on these circular knitting machines that we have?

S. K. Khandelia: So, circular knitting machines, we can get lot of work for circular knitting machines. But we wanted to utilize it for our own Melange yarn only. So, we have started getting because first of all, we had to get our quality of Melange yarn established of that particular unit. These knitting machines are at Bhawani Mandi. So, now we have started getting orders for those knitting machines also and going forward those knitting machines should be fully-utilized for our own Melange yarn. And we will be supplying fabric to our customers who were taking Melange yarn from us.

Siddharth Mohta: And sir, this inverted duty structure due to GST rate on fabric and yarn continuous to be there. So, there has been no update on that?

S. K. Khandelia: That is a point, after the duty on yarn was reduced from 18% to 12%, a large portion of inverted duty structure between this yarn and fabric has been taken care off. But it still some impact is there not 100% out. And we are in discussion with the government, so once the government revenues goes up as it is started going up in April we hope that this inverted duty structure will be corrected going forward once the government is starts getting normal revenues.

Moderator: Thank you, sir. We have next question from the line of Shubham Vashi from Alpha Alternatives. Please go ahead.

Shubham Vashi: Sir, my question is regarding that polyester staple fiber plant that you are going to put up. So there is already around 40 players in that segment with around 500,000 tonnes per annum capacity. So, do you think Sutlej is like going to have the plant running by Q2 FY20. So, by that time do you think we will be able to maintain the margin, additional margin of Rs. 5 per Kg, EBITDA level?

S. K. Khandelia: You see, there are 2-3 factors we have not taken into account various superior margins. And in Rs. 5 I have told you this is only the freight which any of the manufactures will be charging from us in his product. Second thing, the benefit of the quality which we will be having on our own fiber. You see now I am, say if I am buying from 10 people they have 10 different varieties and they do not have any control and they are supplying to many people. So, they do not have any that type of one control on quality which I will be having for my own use. So, that will give a big benefit. So, that I am not taken into account so Rs. 5 is nothing.

Shubham Vashi: Also, I mean with this kind of so many players there in the market, do you think it is really feasible to put our own captive plant?

S. K. Khandelia: Yes, for raw material security, for raw material security and the quality of the raw material and consistency of the quality, we felt that it is necessary for us. It will definitely add value to our products and then we can develop many different qualities of fiber also there. Different qualities of fiber there, so which they may not be producing then we are in dyed business, we can develop the various dyed sets their directly. That will be better for our spinning. At present we are dying fiber and then spinning, it will be dyed fibers.

Shubham Vashi: Also sir, what is ROI or payback period for this project you are expecting?

S. K. Khandelia: 6-7 years.

Shubham Vashi: 6-7 years is the payback period you are expecting?

S. K. Khandelia: Yes. Payback period is 7 years.

Moderator: Thank you. We have a next question from the line of Harish Srihad, individual investor. Please go ahead.

Harish Srihad: This solar power what is the CAPEX we are involved and what is the payback period?

S. K. Khandelia: You see, solar power is of 2.2 megawatt and that is 4.5 years only.

Harish Srihad: What is the CAPEX involved on that?

S. K. Khandelia: CAPEX, 9 crores.

Harish Srihad: And second question on the dividend received from the Awadh up to what period we have received our accumulated dividend from them?

S. K. Khandelia: Up to 2016-2017.

Harish Srihad: So, one more year is left out now?

S. K. Khandelia: For 2017-2018 we will be getting this year.

Moderator: Thank you. We have last question from the line of Hardik Solanki from MoneyBee Investment. Please go ahead.

Hardik Solanki: When fiber plant would be operational or start commencement?

S. K. Khandelia: Yes, we expected to be operational in Q2 2019-2020.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Shri. S. K. Khandelia Ji for closing comments. Over to you, sir.

S. K. Khandelia: We had a very good question-answer session and we had explained many things. I would like to add only one thing. All of you must have seen that as I mentioned that despite a very adverse circumstances we have been able to do much better mainly because of our varied portfolio having specialty yarns, strong marketing network, and continuous innovation and development and we feel that it has be in a good test for us. It is the bad time has been a good test for us and we feel that our business model has a very good sustainability and going forward our expanded capacities which could not deliver the expected results last year due to bad market conditions we will definitely at more value going forward and in general the demand will be normal from July onwards and the normal EBITDA margin will return and we hope that the bad things are behind us and now the things should keep on improving. Thank you very much.

Moderator: Thank you very much, sir. Ladies and gentlemen, on behalf of Sutlej Textiles & Industries Limited, that concludes this Conference Call. Thank you for joining with us. You may now disconnect your lines.