K.P.R. MILL LIMITED

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28.05.2019

To,

The listing department
Bombay Stock Exchange Ltd.
1st Floor, Rotunda Buildings,
PhiirozeJeejeebhoy Towers,
Mumbai- 400001.

The Listing Department,
National Stock Exchange of India Ltd
ExchangePlaza, Plot: C/1, G Block,
Bandra-Kurla Complex, Bandra (E),
Mumbai - 400 051.

Dear Sir,

BSE: 532889 / NSE: KPRMILL

Sub: Transcript of the Conference Call held on 30th April, 2019

With reference to the above subject and in compliance with regulation 30 of SEBI Listing Obligations and Disclosure Requirements) Regulations, 2015, please find attached, the transcript of conference callheld on 30thApril 2019.

Please take the same on record.

Thanking You,

Yours Faithfully,

For **K.P.R. Mill Limited**

P. Kandaswamy
Company Secretary

Encl: As above

K.P.R. MILL LIMITED EARNINGS CALL
Q4 FY 2019
30th APRIL 2019

Moderator: Good evening ladies and gentlemen. I am Pavithra, the moderator for this conference call. Welcome to KPR Mill Limited 4Q and annual FY19 earnings conference call hosted by Batlivala & Karani Securities India Private Limited. At this moment all participants are in listen only mode. Later we will conduct a question and answer session. At that time if you have a question please press * and 1 on your telephone keypad. Please note this conference is recorded. I would now like to hand over the floor to Ms. Prerna Jhunjhunwala. Thank you and over to you ma'am.

Prerna Jhunjhunwala: Thank you Pavithra. Good evening everyone. On behalf of B&K Securities, I would like to welcome you all for 4Q and annual FY19 results conference call of KPR Mill Limited. From the company we have with us the senior management of the Company including Mr. P. Nataraj, who is the Managing Director of the company, Mr. Murugappan who is the CFO and Mr. Kandaswamy, who is the Company Secretary of the company. I would now like to hand over the call to the management for the company for their initial comments. Thank you and over to you sir.

P. Nataraj: A very good evening. I am Nataraj here and once again I welcome you all for the KPR Mill fourth quarter conference call for the financial year 2018-2019. With me our CFO and Company Secretary are here. I am glad to inform that continued growth in revenue and profitability enabled better performance for the year as a whole and regarding cotton though price is recently going up and the quality of the cotton is one of the best in the recent years. We have strategically planned and we accumulated the inventory much earlier so that at lower price with best quality we are able to cover. So the company is in a very comfortable position for this season regarding the raw material, mainly the cotton. As the price is increasing in cotton, the yarn price is also moving up and regarding garment order position is encouraging. The enhanced capacity has started yielding higher garment production. Also I am very happy to inform that the first shipment from the Ethiopian factory was done last month and the production is going on as per the plan and ramping up will happen in phases in Ethiopia.

Regarding the retail, of the inner wear garments, the strategy of marketing and distribution network, the production team as well as the marketing team have been set up. We are planning for launch, called soft-launch during this quarter. Regarding sugar, due to government regulatory the monthly sugar mechanism that is the quota system….releasing certain quantity only every month, the sugar price maintains at better level. The new project – ethanol at a cost of 120 crores is in progress and may commence its operations in the coming season. With these additional activities, we hope to perform well in the coming years too. Now, the floor is open for questions. Thank you.

Question and Answer Session

Moderator: Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. If you have any questions, please press * and 1 on your telephone keypad and wait for your turn to ask the questions. If you would like to withdraw your request, you may do so by pressing * and 1 again.

The first question comes from Chinthan Sheth from Sameeksha Capital. Please go ahead.

Chinthan Sheth: Thanks sir for taking my question. A couple of questions; one is on, you already mentioned inventories we have accumulated this quarter which is reflected in our balance sheet that inventory has been higher, any other reason apart from that? Might be sugar inventories also may be sitting in our books as of March?

Management: Yeah sugar inventory is also a little higher during this period, it is about 88,000 tons now because of new regulations of releasing sugar quota every month, it is sitting more on the balance sheet but the prices are very good. It is very good for the industry.

Chinthan Sheth: What is the cost of sugar inventory?

Management: The inventory cost is about Rs.27 per kg.

Chinthan Sheth: Okay. Sir, on ethanol the 90 KLPD plant, how much of that can be produced from our captive molasses from the sugar division?

Management: 50% will be from our own molasses and 50% we will be planning to buy from outside.

Chinthan Sheth: Sure and that can be ramped up quickly as and when….?

Management: Yeah it can be ramped up quickly because we have our own molasses also and we can buy it during the season. We are also building up the molasses capacity and molasses tanks also for that purpose.

Chinthan Sheth: Sure. From our presentation we already reached capacity of 110 versus the planned 10 million in Ethiopia and 10 million in the Brownfield, we were looking at 115 million pieces this year that is FY20 of which 120 has already come in, so any plans for furthering up on the capacity or what is our experience in Ethiopia? How fast do we want to expand or explore that region for garmenting expansion?

P. Nataraj: Yeah, recently we have added 10 million in the existing capacity in India and Ethiopia we have already started the commercial production and next week we have a meeting with the foreign ministers in the Ethiopian government and our technical team is visiting there and we are going to have a discussion with them and we will see what is the outcome of that and then we will see for the further expansion either in Ethiopia or here. So that will be decided maybe in a couple of months.

Chinthan Sheth: Sure, and lastly sir, margins for 4Q is pretty….a little bit lower from what we were reporting in the past few quarters, one of the reason maybe slow ramp up of capacity that has been put up over there in Ethiopia that may be leading to some additional expenses this quarter; any other reasons why margins are lower….?

P. Nataraj: Actually in the fourth quarter usually we used to buy power from outside because windmill it is off season so power cuts are higher during this quarter and the cotton prices was volatile during this period because of that yarn prices are also fluctuating because of that yarn margins are a little lower, because of that textile margins are a little less.

Chinthan Sheth: Sure I will join the queue, thank you for the explanation.

Moderator: Thank you sir. The next question comes from Abhijeet Dey from BNP Paribas. Please go ahead sir.

Abhijeet Dey: Good evening gentlemen, if I may start, if you can break up the fourth quarter sales volume between yarn and fabric, and also the revenues?

Management: Yeah, yarn 383 crores, fabric 40 crores.

Abhijeet Dey: Okay.

Management: You want quantity?

Abhijeet Dey: Yeah.

Management: 17747 tons yarn; fabric 1604 tons.

Abhijeet Dey: Sir if you have the December quarter handy with you sir, the same numbers?

Management: Yeah I have. Yarn sale value is 307 crores, fabric is 46 crores. Quantity is 13,335 tons yarn, fabric 1880 tons.

Abhijeet Dey: Right sir. And what is the sugar sales for the fourth quarter?

Management: Sugar sales is about 13,000 tons.

Abhijeet Dey: It is lower on a YOY basis?

Management: Yes, on a year on year basis it is lesser. Last fourth quarter was 20,000 tons.

Abhijeet Dey: So that accounts for the lower….?

Management: No, no it is because of the release mechanism introduced by the government.

Abhijeet Dey: I understood. In terms of the revenue in the sugar we posted, that is part of the reason basically…. Okay and in terms of the power cost you mentioned it was higher, how much higher was it sir on a year on year basis for the fourth quarter?

Management: It is about 20 crore rupees.

Abhijeet Dey: 20 crore rupees higher you are saying?

Management: Yeah.

Abhijeet Dey: Okay, sorry I missed the initial part where Mr.Nataraj was talking, when do you expect to implement the distillery unit, by what time?

Management: Before next season; the coming season is November 2019, before that we are planning to commence the production.

Abhijeet Dey: Okay. And sir one last question on the garment unit, specially the one in Ethiopia, is the product mix more or less the same what we see in India or is there a difference there?

P. Nataraj: The product mix is more or less the same but maybe a little higher duty value garments will be there.

Abhıjeet Dey: Okay fine. One last question if I can add on that; the other operating revenue is higher because of export incentive which we have booked, could you quantify that number sir for this year and last year? FY19 versus FY18?

Management: We will get back to you on that.

Abhıjeet Dey: Okay thank you very much.

Moderator: Thank you sir. The next question comes from Mr. Kashyav from Emkay Fincap. Please go ahead.

Kashyav: Hello? Thank you very much for the opportunity. One question on the export incentives; the export benefit on the rebate of this tension which has now reached from 2.2 to 8.2 with a widened levy being rebated, what's your feeling, will the MEIS….that 4% will go away in this December or we believe that the government will still continue to give you both the benefits?

P. Nataraj: The discussion is going on with the government and the industry and the Government has assured that whatever the subsidy or incentives as per the WTO norms if they reduce somewhere they will try to match it to the level, that's the assurance they have given us. So we are continuously in touch with the government and we hope definitely if they reduce something which is not allowed as per WTO norms, they will….like what happened just now, becasue of MEIS instead of ROSL they have made it ROSCTL….so like that in other form we hope there will be some betterment, the government will also want export revenue more because of inflow of dollar. That's why I think we are confident there will not be any reduction in this.

Kashyav: As of now you get both right, the MEIS as well as ROSCTL…..?

Management: Yeah we get. ROSCTL for the garment business is about 6.5%.

Kashyav: Sorry I missed out the last bit…6.5% is…?

Management: 6.5% to 8.2%

Kashyav: The MEIS benefit is still December '19?

Management: Yeah.

Kashyav: So the total put together is 6-1/2% plus 11% incentive is what you are getting?

Management: Yeah.

Kashyav: And what was this number in quarter three before the changes?

Management: The ROSTL has come from 7th of March only, before that it was 1.72%.

Kashyav: So which means 1.7% plus 4% which is 5.7%. Now it has gone to 11.5%?

Management: Yeah.

Kashyav: Okay.

Moderator: Thank you sir. The next question comes from Ankit Gor from Systematics. Please go ahead.

Ankit Gor: Hi thank you for taking my question. My question is with more regards to Ethiopia. If you can give more visibility in terms of Ethiopia, how much capacity utilization we are expecting in the next six months and how many customers we are supplying and how many have kind of completed auditing?

P. Nataraj: Yeah, already there are two customers they have audited and they have approved, already they have placed their orders also. We are also looking at adding two more customers. The capacity we have just started where we have made one shipment and the second shipment is also getting ready. That's what I told in the beginning itself, we are ramping up. It will take some time, like four, five months. So during the ramping up we can't say exactly the number of customers or only this much is the quantity and all because ramping up is not only setting the lines, it is mainly training of people and all these things, so it will take some plus or minus. If I quote like four or five months, it may not be right. So we are pushing it, but I hope that within six months we can bring it to full capacity; that's only I can assure that.

Ankit Gor: Okay and you said that this additional capacity at Ethiopia will be decided once you do meeting with the government there right?

P. Nataraj: This is one further development, so that's where we are going, we have to take it simultaneously. One thing is ramping up and we have to see what are all the issues and all these things when we come into full production. Now we have around 700 employees working there….full strength would mean 1400 so another 700 we have to add, so with all these things, we have to see the comfortability and all. This is one side; about our side. The other side is the government approval, how to allot the sheds and all these things, additional licensing and all…actually both. What I told is, we don't want to say after one year we will go and start. So simultaneously we are sorting it. So if both match, we can go ahead. That's why we are always planning in advance; if everything goes good, then we need not wait for further time, so that is the reason now we have started discussing with the government.

Ankit Gor: Sure. One thing on retail side, if you can tell us now what is the kind of capex we are planning in terms of A&P stand or anything….have you decided that for a full year on retail side?

P. Nataraj: Actually it is not yet finalized because all the initial work like what I told distribution network and team building and style designing, style making, pattern making its called, in-house production, setting up the marketing team and having interaction with the distributors and the team also already marketing set up and are in the market have already last a couple of months, they are visiting the various cities, retailers and all. So these are the things going on. The capex means mainly for factory level there is not much capex as we have the capacity and we ourselves can do the initial production within the existing factory itself. Once the style and everything finalized, once we launch it, like a soft-launch it is called, once we launch it then we will get an idea and after that we will think about….. Now, presently the expense what we have to spend is the advertisement. As this being a soft-launch we are not going for much media advertisements, like hoarding and all these things. After reaching a certain level only we can go for media advertisement. So we are strategically planning.

Ankit Gor: Sure sir. So what is the certain level sir? It is benchmarked with revenue as in this much revenue if you touch then only you go ahead with full throttle in terms of advertising, promotion, what is that bench mark sir?

P. Nataraj: You can say both ways, instead of revenue you can say the area it reaches because when we go for media, for example TV advertisement, once you advertise in the TV for example in the state level, so then in every city or town we should have our product in these shops, otherwise there is no meaning in TV advertisement. So instead of revenue you can say that reaching the area. We have to plan like that, that's more important.

Ankit Gor: Okay, we are yet to plan that entire strategy?

P. Nataraj: Yes.

Ankit Gor: So can you share some numbers if you have on FY20, what is that number in terms of working capital or in terms of any other change which you will go to at retail?

Management: We are planning for a soft launch during this quarter, during that time we will reach to certain level of estimations, during that time we will have a call and we may be discussing the entire program and all.

Ankit Gor: Okay boss, thank you very much.

Moderator: Thank you sir. The next question comes from Resham Jain from DSP Mutual Funds. Please go ahead.

Resham Jain: Thank you for the opportunity. Just a few questions, number one is, on the Tirupur market, in FY18 we saw a big disruption in the Tirupur market and after three, four, five years of good run we have seen that overall garmenting export took a hit and now in FY19 we saw the rupee depreciation as well as the increase in the incentives. So how is the overall Tirupur market doing from your yarn business perspective?

P. Nataraj: Yeah if you see that last one year, what you said was sometime back and now all issues have been sorted out and especially the government has given some encouragement for the garment exports. There are lots of global issues also like other countries, like China the cost of production has gone up and the trade war in the recent past going on….with all these things, India, specially Tirupur is very positive and up-beat and we also at KPR feel that there are a lot of positive energy coming in and we are also getting more enquiries, orders and business with the existing as well as new customers. In the same way as you said, rupee was also advantageous in the last two or three months for exports and government also….though because of WTO norms, they say MEIS and all these things, the government also wants to push exports. Because of that they also may enhance the incentives. So with all these we are very confident, that garment business will do well and ultimately Mr.

Resham will know that we are the largest supplier of raw materials for yarn and fabric in Tirupur and us being the highest quality producers in this region, naturally because our garment is doing well and yarn movement is also very good.

Resham Jain: So sir, FY20 from yarn margins and overall, since we don't have any incremental capacity to sell, the overall yarn profitability for us in FY20 should it be much better than what we have seen in FY19?

P. Nataraj: We hope so because the market is doing well and subject to only this there is fluctuation in the raw material price….that is cotton price, which is very difficult to predict. But we are very positive, almost for six months we have inventory stock, the next six months, that is coming season in October to next March we have to see and we are very positive. What you are asking and we are also in the same view.

Resham Jain: Okay and sir, secondly on the garmenting business, we did around 95 million pieces this year, what is the number we are looking at for FY20 in terms of the overall growth in terms of volume?

Management: Value we are looking at about 15%, volume it depends because we are looking for a little more value addition during this period.

Resham Jain: Okay. Sir finally on the overall customer additions and all, you have added US customers as in last year. Any new customer addition that has happened in the last three months?

Management: Yeah, some four, five big customers were added during this period….

Resham Jain: From Europe or from US?

Management: Mostly from US.

Resham Jain: Okay and sir, one final one, the margins on the garmenting business, given the further improvement in the incentive structure and all, your numbers for FY19 first, what is the EBITDA margins we have done in the garmenting business and margin in FY20?

Management: EBITDA margins for garments are about 22% in FY18-19. We hope that we will improve it because of the incentives increased during this period.

Resham Jain: What will be that number sir?

Management: We will see no?

Resham Jain: Roughly….I am not asking for….

P. Nataraj: Resham we are now adding one or two percent, so we are pushing it. Even if we get 25 also we will be happy but definitely better than this year.

Resham Jain: Okay sir, thank you and all the best.

Moderator: Thank you sir. The next question comes from Ms. Trupti Agarwal from White Oak Capital. Please go ahead.

Trupti Agarwal: Hello? Thank you so much for this opportunity. I just have three questions. Number one is sir, if I look at the garmenting revenue when compared to last year, the realization per piece for garment has gone up by 9%, I just want to know, if we were to break this into how much of the benefit let's say because of the incentives, how much due to currency and how much due to value add? Would it be possible sir to know what is the breakup of this increase that has happened?

Management: As you said, because of the currency also the realization has increased. The main reason for the increase is because of the increased yarn prices due to increase in the realization also. And incentive structure has been revised during this period only ma'am from March 7th only. We will see the increase in realization from 2019-20 only. The incentives last year and the year before the incentives are more or less equal.

Trupti Agarwal: Sure. So sir in terms of let's say if we look at dollar terms, has there been any increase in realization in dollar terms?

Management: Yes, small increase is there.

Trupti Agarwal: Okay, next year you are saying you are looking for more value added product, so….

Management: Yeah, we have introduced some of the facilities which can produce value added products, we are trying to.

Trupti Agarwal: Sure. Is there any way you can quantify it….how much increase in realization would have been because of these value added products?

Management: We are looking at somewhere around 2% to 3% increase in value.

Trupti Agarwal: Got it. And sir, if I am not wrong, I just wanted to again verify, you said we have added 10 million capacities of garments in India also is it?

Management: Yeah, in India also we have added.

Trupti Agarwal: So 10 in Ethiopia and 10 in India right?

Management: Correct madam.

Trupti Agarwal: That totally takes it to 115 and going forward as you said depending on how it pans out in Ethiopia, you will take a call whether to add capacity in Ethiopia of India right?

Management: Yeah, you are right.

Trupti Agarwal: And sir, for the full year, would it be possible for you to tell me how much is the fabric which we source from outside for our garment because what I understand.….

Management: Very negligible amount is outsourced from outside, mostly from in house only.

Trupti Agarwal: Okay mostly from in-house source….

Management: Outsourcing maybe 1% or 2% of the overall consumption.

Trupti Agarwal: Got it, sure sir, thank you very much.

Moderator: Thank you ma'am. The next question comes from Ms. Divya Jain from ICICI Prudential Mutual Fund. Please go ahead ma'am.

Divya Jain: Sir this is regarding more on the sugar business. I wanted to understand whether the current business of sugar would continue….or with ethanol coming into the picture or that also would be utilized and there would be no sugar revenue coming into the picture?

Management: Madam we are setting up a plant for the molasses we are producing from the sugar plant, so the sugar business will continue.

Divya Jain: Hello?

Management: Molasses is the byproduct of sugar, so for converting that into ethanol only we are setting up the project, so sugar business will continue, ethanol business will also continue.

Divya Jain: So in future the sugar would be there in the picture right?

Management: Yeah.

Divya Jain: Second thing is on the cotton procurement, when will the next cycle of your cotton procurement start?

Management: Cotton procurement will start sometime from November 2019.

Divya Jain: So you have inventory till November 2019?

Management: We have about for six months more or less.

Divya Jain: Okay on the retail side, is that you are thinking a big part of your revenue or is this going to be a small part….you mentioned the soft-launch in this quarter, so the numbers would come in from this year, this quarter or next quarter? What would be the expected time line for it?

P. Nataraj: Yeah, revenue will start from this quarter onwards. We are planning for a soft-launch during this quarter, step by step we will increase the areas.

Divya Jain: Okay, thank you sir.

Moderator: Thank you ma'am. The next question comes from Ritesh Bhagwati from Rockstud Capital. Please go ahead.

Ritesh Bhagwati: Hello? Thanks for taking my question. My question pertains more towards the retail side. I just wanted to understand our thought process in regards to the particular foray we are getting into – that is the inner wear; given the understanding that it is a very competitive market where four to five branded players have already captured the market overall. So how do we plan to foray into that? How would we be different in that particular arena….I just wanted to understand that part.

P. Nataraj: Yeah. Of course there are a few brands. But the market is very huge, one thing and we have studied thoroughly last one year and there is a lot of potential….there is space for areas where either the product or the style or the quality like economic segment or premium segment…. So like this we can identify. Actually it is a very big subject; we can discuss even for hours that kind of market. Another thing is, the strength that we have is the unit. From raw material stage to almost 100% the capacity in production, processing, printing and all these things, the yarn which is also manufactured inside, the processing, the garmenting everything under one roof. The cost of production, compared to others….there is no transportation and so because of that cost is less, there is no moving here and there of raw material, the finished product, the quality will be better. As we are already in this manufacturing sector, for example even the organic products, we are into this personalized area and we have our own different variety of fabric….so for example the color mélange all these things. Our team is very strong in the manufacturing; so different styles and product range also we can do better and at a lower cost. So ultimately the customer needs quality and price and of course delivery also, the distribution network. So these are all the areas and we hope that we are very strong in that and definitely we are very confident that in any market we can compete and do better.

Ritesh Bhagwati: And as per the past conversations that I have read, we would be entering into multi brand outlet, like asset like model, so only major expense apart from ad spends would be the inventory build up right?

P. Nataraj: Correct.

Ritesh Bhagwati: So how would we be tackling that situation because I am sure initially there will be a huge.. in terms of the inventory buildup. So do we have any plans with regards to how we would be tackling….?

P. Nataraj: What you are saying that in multi brand….I think I have other thoughts…..when you go for EBOs, you have to keep a huge stock with inventory. So I think this is a better solution what we have selected – MBO based on only thing….what we should have the very strong networking team – distribution network team. So once we understand that definitely we can able to manage the inventory. Just now have our own manufacturing, raw material is with us, all the process is with us and we can make….if somebody is able to make in 30 days, we can produce in 15 days. That way we can manage compared to other competitors or even like that. That's why we also planned that in the beginning, better not to go for EBOs because in EBO the capex is more, and another thing, like every shop you have to keep a huge inventory. So this is the best method we with our experience as well as we have technical advisors, marketing experts we have come to a conclusion this is the best option.

Ritesh Bhagwati: Okay and lastly with regards to client addition under the garment section, do we have any plans to add any new clients in this financial year upcoming financial year and if yes, which region are we likely expecting?

P. Nataraj: Naturally, whenever we go for expansion, one by one we would like to add the customers. Previously our main concentration was in the European countries. Now, actually in the last one or one and a half years we are a little bit diverting to the US, particularly for Ethiopia where tax structure is much higher for US so it will be more beneficial. So we have already two customers to Ethiopia and one more customer here also. We will continue to explore the opportunities and we will go for choosing good customers….that will happen.

Ritesh Bhagwati: That's it from my side, thank you.

Moderator: Thank you sir. The next question comes from HR Gala from Finvest Advisors. Please go ahead.

HR Gala: Good evening Mr. Nataraj and team. I just wanted to have the details of now what is the structure of export incentive? Like this MEIS has placed at 4% at the moment?

Management: MEIS is 4%, ROSTL is about 6.5% and drawback is about 2%.

HR Gala: 2% is drawback. Now, total it comes to about 15%...

Management: 12.5%.

HR Gala: Yes, 12.5%, sorry. Now, this 4% will continue or will go away.

Management: As of now, it is available up to December; we hope that they will continue it. Whether in this form or in the modified form.

HR Gala: Okay. And second question was have you accrued any subsidy in the current year, because our other income has gone up substantially, more than double.

Management: Subsidy…we have not accrued any subsidy income during the quarter; it is mainly due to this GST implications. We have…some of the rental incomes were accounted, which are all given to the workers, and the expenditure also, in the same way, there is an increase in the staff other expenses. It is only gross amount.

HR Gala: Yeah, I understand, on both the sides.

Management: Both the sides.

HR Gala: Yeah. Last year we had accounted 9-1/2 crore for subsidies, so this year we have not done anything.

Management: We have not accrued anything during this year.

HR Gala: Okay, so 9-1/2 is not there. Sir, one major structural question for Mr. Nataraj, that one side we require lot of resources to get into (not clear), we are expanding the capacity…

Management: Hello, sir, your voice breaks.

HR Gala: Hello, can you hear me sir?

P. Nataraj: Yeah, now, okay.

HR Gala: What I was asking, that, we require lot of resources for capital expenditure, working capital, we are having lot of stock of sugar, cotton, etc., why are we in a hurry to go for the third buyback? Because we already have done two, and this is going to be bigger than that.

P. Nataraj: Actually, you are little late, and actually this is the first time that one investor is asking about this question. Because I have received hundreds of calls to go for…if you see last two years, we did only 10%, and this year, everyone told you have a higher reserves and don't do with 10%, you go with higher percentage, at least some 20%, so like that, this is what 100s of calls received. So, based on that only that we have taken decision and even we have called, and some people also came here, and with all these suggestions and advise only we did this. And, we are in fact, every time we used to tell that our job is here to do…take care of the business and do the business, and mostly like an investment point of view, like, dividend, like all these things, and we listen to investors and majority what they suggest and accordingly we proceed. And, this time also, in fact, two years we did 10% and most of the people, I can say 100% of the people told you go for higher percentage. Of course, each one told different percentage, but higher percentage only. And this is the first time someone is asking that…

HR Gala: And the reason why I am asking Mr. Nataraj is because on balance sheet we don't have cash and bank balance to match the amount which we are likely to disburse on the buyback. Because everything is…

Murugappan: Yeah, I am Murugappan here, I will tell you what. Actually sir, we have enough cash available in the system, those cash are in the working capital side. Since we do not have major capex expenditure during the year, we thought we will pay back the money whatever laying in the working capital system to the investors. And if you look at the debt-equity ratio, it is one of the lowest in the industry.

HR Gala: Yeah, that is true.

Murugappan: Current ratio if you look at, we are very close to 1:2 and the position is very healthy, it will not have any impact in the business. It is actually, it will only give it better understanding to the investors and we thought they will appreciate our action.

HR Gala: Okay. So, we may not have to do any bridge financing or anything for that, is it not?

P. Nataraj: Nothing needs to be done. Because like the current ratio will tell you 1:2 is the highest in the industry.

HR Gala: Okay. So, as you are able to churn the inventory and realize the money. So, approximately when do you think you will be planning for this buyback, in terms of period?

P. Nataraj: Sometime in July.

HR Gala: Okay. Sir, one more question, this 90 KLPD ethanol plant, where we are investing about 120 crore, how much will be the revenue potential at full capacity?

Murugappan: About Rs.60 to Rs.70 crores sir.

HR Gala: Only Rs.50 to Rs.70?

Murugappan: Rs.60 to Rs.70 crore. There is no expenditure other than the capital expenditure.

HR Gala: No, no, this is the revenue?

Murugappan: Yeah, I am talking about the revenue, Rs.60 to Rs.70 crore is the revenue expected from the project.

HR Gala: But at what price, like, say our total will be how much, 90 KLPD, so total how much we will be having, ethanol 365 days.

Murugappan: 300 days.

HR Gala: Okay. And price will be about Rs.45.

Murugappan: Yes.

HR Gala: Okay. So, 300 days cycle you are considering.

Murugappan: Yeah. We are hoping that we will improve it through our outside processing also. Outside processing will help us to increase the volume. Volume will go to 90 crores once we reach full capacity.

HR Gala: Okay, so this Rs.60, Rs.70 crores is at what capacity?

Murugappan: It is about 75% capacity; we can reach to 100% that will give you about Rs.90 crores.

HR Gala: Okay. Thank you very much sir. All the best.

Murugappan: Thank you.

Moderator: Thank you sir. The next question comes from Akhil Kalluri from Franklin Templeton. Please go ahead.

Akhil Kalluri: Thanks a lot for the opportunity. Sir, just a couple of questions from me. First, is on the overall garmenting growth. I think, for one of the previous questions, you highlighted there is a targeting of about 15% value growth and probably slightly low volume growth this year. So, sir, the question was, historically, if I look at the data for the past five, six years, our volumes have grown at about 20% CAGR consistently. So, this year's slightly weaker growth, is it more a function of capacity constraints, or is there any other reason for this? Just your thoughts on that.

Murugappan: Sir, we already…if you look at the baseline, it has grown to 1340 crores. 15% on that will be higher no?

Akhil Kalluri: Absolutely, fair enough. So, I mean, going forward, this is the kind of growth that we are targeting in this business, about 15 odd percent growth?

P. Nataraj: Yeah, yeah.

Akhil Kalluri: Fair enough. Sir, that's the first part. The second thing which I wanted to check was, on this particular quarter, the margins, the fourth quarter margins, you highlighted that most of the margin fall is actually because of yarn. Can you also help me with the actual numbers, between yarn and fabric, what the margins are? Sorry, yarn and garments.

Murugappan: Yarn is about 14%, garment is about 20%.

Akhil Kalluri: Fair enough, for the entire, almost the entire from this is only from the yarn part. Garment margins are broadly stable. Fair enough sir. That's it sir, just wanted clarity on these few things. Thank you.

Moderator: Thank you sir. The next question comes from Mr. Sunil Kothari from Unique Investment Consultancy. Please go ahead.

Sunil Kothari: Hello?

Murugappan: Yeah, tell me sir.

Sunil Kothari: Yeah, thank you sir for the opportunity. Congratulations for good numbers and very liberal debt. I think your business seems to be very justifiable for any investor.

Murugappan: Thank you sir.

Sunil Kothari: Sir, my question is, we are nearing almost additional capacity in the garment and (not clear) not major volume growth, so…

Murugappan: Can you be a little louder? We could not able to hear you.

Sunil Kothari: Yeah sir. Basically, we are working at full capacity in the garments now and we are not planning any major big projects, like 30, 35 million capacity plant or something. So, what are the reasons we are not putting any big new garment factory?

P. Nataraj: No, see, once you reach the capacity, then we have to go slowly, step-by-step, otherwise like, in the beginning, when we had a factory like this, the number of…the strength of the employees, already we have 22000 employees as a company as a whole, and now we have stepped into Ethiopia. So, now, why we are into Ethiopia we have explained in the beginning itself, one year back itself. So, that is an advantage, like, duty benefit and other benefits are there. And, so there in Ethiopia going for big size like this, as you said, 35 million and all these things, near 5000 workers and all is a very risky. We don't want to take that kind of a risk. So, and here, already we have added 10 million with the existing capacity, so then now looking for something in Ethiopia. So, that's why various options we are looking for, and once you reach a certain level, it is better to go step by step. So, instead of just going…every time we cannot double the size. So, when the…

Sunil Kothari: No sir, my question is…

P. Nataraj: When it becomes 90 million, we cannot go for adding another 10000 employees all of a sudden, so step by step we are going, like, adding.

Sunil Kothari: Sir, what I am trying to understand is, if you see any saturation in this garment thing.

P. Nataraj: Hello, we can't hear you sir.

Sunil Kothari: Are you getting the voice now?

P. Nataraj: Little bit louder, it would be easier.

Sunil Kothari: Yeah. Sir, are we seeing any saturation in garmenting business or it is just one year consolidation and then we will grow further?

P. Nataraj: Yeah, you are right, there is no saturation. In fact, the Indian garment industry is very upbeat. Whatever is going on globally, Indian market is very strong and garment industry is very positive, and particularly in KPR, we are very strong and very positive on this. And definitely it is growing very strong, year-on-year, if you see in the past five years before or up to now today, what is going on, is very strong, strongly growing. So, very much it is positive. There is no issue on…or second thought in that. So, only, as you said, we want to consolidate and move step by step, so that is the only…

Sunil Kothari: And sir, last question is on this ethanol plant, which is an 120 crore investment at around 60 crore initial revenue and then around 90 crore.

Murugappan: About 100 crore of revenue expected in full year operation from 2020-'21.

Sunil Kothari: Sir, what type of IRR should we expect from this project, what is the gross margin or EBITDA margin in this business?

Murugappan: The EBITDA margin, we are looking at around 20% plus, because that is a capital-intensive project, 20% is possible, and next one is…revenue, we are looking at around 100 crores of revenue in full year operation. First year we are looking at about Rs.60 to Rs.70 crore of revenue.

Sunil Kothari: Right, okay, sir, thank you very much. Wish you good luck.

Murugappan: Thank you.

Moderator: Thank you sir. Next question comes from Harshal Shah from Anvil Wealth Management. Please go ahead.

Harshal Shah: Hello sir. Most of my questions have been answered. But sir, can we expect this kind of distribution policy going ahead or like, there will be change in it?

Murugappan: Sir, during the year, based on our fund requirement, we have taken this decision. In the coming year, it will be discussed and finalized depending upon the requirement.

Harshal Shah: Okay. And sir, can we expect 20% kind of margins in cotton yarn going ahead?

Murugappan: Cotton yarn, little difficult, but we hope that it will come.

Harshal Shah: Sure sir. Thank you sir. That's it from my side.

Murugappan: Thank you.

Moderator: Thank you sir. The next question comes from Naushad Chaudhary from Systematix. Please go ahead.

Naushad Chaudhary: Hello? Hi, thanks for the opportunity. Most of the questions has been answered. On the data point, I missed out the garment revenue and volume of this quarter sir.

P. Nataraj: Yeah, I will tell you sir. Garment sales quantity is 28.2 million and value is Rs.437 crores. Got it?

Naushad Chaudhary: Okay. In terms of margins, you shared because of the power cost and the operation started in Ethiopia, are the two reasons for the increase in other expenses and staff cost. Is there any other reason apart from these two, for the margin drop in this quarter, sir?

Murugappan: Actually, Ethiopia does not have any impact on the operations during this quarter. It is power costs and we have modernized the plant with some new technology.

Naushad Chaudhary: Okay. You have added around 10 million capacity in India this quarter, and if I see your performance in the garment division before this 10 million we were doing quite well around 19, 19-1/2, we were doing on a blended basis. So, I was just wondering if this 10 million has disturbed our operation and we have gone down in terms of margin or…

Murugappan: Margin is about 20% for the quarter and the full year it is about 22%.

Naushad Chaudhary: Yeah, I am just trying to understand whether the additional Brownfield capacity of 10 million in domestic garmenting capacity has disturbed our overall structure of garment business?

Murugappan: It has not disturbed, it has only improved the production, and we expect it to do well in the coming period.

Naushad Chaudhary: So, do you see the recovery in the overall business margin per se from 16-1/2, which we did in this quarter, it can go back to the normalized level?

Murugappan: Yeah, for the quarter, the margin is about 18%. The year as a whole, it is about 19.2% as a whole.

Naushad Chaudhary: So, do you see the recovery in this…

Murugappan: We hope that it will improve.

Naushad Chaudhary: Okay. Alright, thank you so much sir.

Management: Thank you.

Moderator: Thank you sir. Next question comes from Shradha Agarwal from AMSEC. Please go ahead.

Shradha Agarwal: Yes sir, good afternoon. Most of my questions have been answered, some book-keeping questions. Sir, what is the geographical breakup of revenue for the garment division?

P. Nataraj: Yeah, I will tell you madam. Europe is about 59%, USA is about 14%, balance is others, Australia and Asia.

Shradha Agarwal: Okay. And sir, how many employees would we be having in our garment division?

P. Nataraj: It is about 15000 people now.

Shradha Agarwal: Including the 700 in Ethiopia.

P. Nataraj: Yeah, yeah.

Shradha Agarwal: Okay. And what should be the normal capex we should be building in to a model, apart from the 120 crores on the ethanol plant?

Murugappan: It is expected to be around 70 to 100 crores.

Shradha Agarwal: Okay sir. And, I missed the 4QFY18 margins for the yarn and the garment division. Would it be possible to share that number, 4Q'18.

Murugappan: We will get back to you madam.

Shradha Agarwal: Sure sir, thank you.

Moderator: Thank you ma'am. Next question comes from Ananth Dhavnani from Unifi Capital. Please go ahead.

Ananth Dhavnani: Sir, thank you for the opportunity. Sir, on the ethanol plant front, I wanted to understand the revenue guidance that we are sharing, 50 to 70 crore, for that the offtake, do we have a contract already or we will have to negotiate…what's the current status?

Murugappan: This is a government allotment sir. Once we start the commercial production, the government will allot the quantity to the nearby petroleum distribution companies. The prices are all fixed, only the allotment will come.

Ananth Dhavnani: Okay. And sir, in terms of our incentives overall being higher from government to promote exports, so how much of the incentive is being retained within the company, whether they are being passed to the customers? If you can give us some ballpark breakup?

Murugappan: It is a general business; it is not particularly sharing with the customer and all. We are not sharing anything with the customer; it is more of a business call.

Ananth Dhavnani: Okay. Right sir, and lastly Ethiopia, this 10 million ramp up, you said four to five months, so is the four to five month time period for the 10 million ramp up or is it for 70% to 80% utilization.

Murugappan: It is a ramp up, during the ramp up, it is very difficult to predict the quantity production and all. We hope that the second half will give a production of about 70 to 80%.

Ananth Dhavnani: Okay, thank you.

Management: Thank you.

Moderator: Thank you sir. Next question comes from Siddharth Rajpurohit from JHP Securities. Please go ahead.

Siddharth Rajpurohit: Good evening sir. Sir, can you please explain in detail the impact on gross margin during the quarter sir?

Murugappan: Gross margin impact during the quarter due to two things. One is the volatility in the cotton prices lead to fluctuations in the yarn prices, that is one thing. Second, during the fourth quarter, we usually have a higher power cost, because we are buying more or less 100% of the power from the grid.

Siddharth Rajpurohit: But the impact on gross margin is because of yarn or cotton, sir, how much of procurement we do for yarn?

P. Nataraj: No, sir, it is…we are manufacturers of yarn, when the cotton prices fluctuate; yarn prices also fluctuate, because of that the margin was fluctuating.

Siddharth Rajpurohit: We don't source yarn is what you are telling.

P. Nataraj: Yeah, yeah.

Siddharth Rajpurohit: Sir, ethanol, what is the capex we have done till date and what is the balance?

P. Nataraj: We have placed orders for most of the machineries, about 10 to 15% of the advance we have given. About Rs.15 crore paid. We hope that balance payment will happen during this first half of the year.

Siddharth Rajpurohit: Okay. And, totally it is about Rs.20 crores.

P. Nataraj: 20 crores.

Siddharth Rajpurohit: Okay, and sir, the retail business we have not launched yet, so are we capitalizing any cost?

P. Nataraj: No sir, we are not capitalizing.

Siddharth Rajpurohit: Okay sir. And sir, final question, given the new incentive scales that are there, what will be the impact on margin, what could it improve to, any ballpark number sir?

P. Nataraj: It will improve the margins from this year onwards.

Siddharth Rajpurohit: So, 200, 300 basis points, something, any ballpark number sir?

Murugappan: About 2%.

Siddharth Rajpurohit: Okay sir. And the 15% growth guidance that you have given sir, is for volume or value sir?

P. Nataraj: Value sir.

Siddharth Rajpurohit: Okay sir. Thank you sir and all the best.

P. Nataraj: Thank you.

Moderator: Thank you sir. The next question comes from Ranjith Kothari, an individual investor. Please go ahead.

Ranjith Kothari: Thank you for the opportunity sir. Sir, what is the outlook on the cotton prices going forward, for like, six months and one year?

P. Nataraj: Sir, actually, six months, present situation it is difficult to predict, based on, now the season depends on the monsoon, not only in India, internationally, if monsoon is good, the cotton price will come down. So, the monsoon season starts from next month onwards, so everywhere if there is good rain the cotton belt, cotton price will come down, because acreage will increase. So, based on that, if less rains, then acreage will come down, because lot of area is rain fed only. So, first point, this being an agricultural product, so we have to depend on that. That is one thing. And, another thing, also, like the trade war, like between two major economy, because they are the…China is the major importer of cotton, either they have to take a call, if deal is okay they will buy from USA or if otherwise, they have to import from India. So, based on that also the price may fluctuate. So, these are all external factors, which is very difficult to predict. So, otherwise, in India, overall the situation is very comfortable if you see the last three, four years. Now, only outside India, the scenario is having impact on the cotton prices. So, this is the position. So, as KPR is concerned, we are very comfortable as we have stock, reasonable good, till the next season. As we have stock and in the next four, five months any fluctuation will not have any impact on KPR.

Ranjith Kothari: Okay sir. Sir, my next question is regarding capex. Sir, do we have any plans like adding capacity in the spinning division?

P. Nataraj: No, presently we have no idea or plan to go for expanding spinning division. We are looking for value additions.

Ranjith Kothari: Okay. Thank you sir.

P. Nataraj: Thank you.

Moderator: Thank you sir. Next we have a follow-up question comes from Ms. Trupti Agarwal from White Oak Capital. Please go ahead ma'am.

Trupti Agarwal: Hello? Sir, I just wanted to clarify the capex number again. If I am not mistaken, you said that 70 crores is what you are looking at towards maintenance capex, right?

P. Nataraj: Yeah, 70 to 100 crores.

Trupti Agarwal: And then the other capex would be depending on the garmenting division, whatever expansion we take…those are the only two capex numbers, right?

P. Nataraj: Right madam.

Trupti Agarwal: Okay, thank you.

Moderator: Thank you ma'am. Next question comes from Pratik Kothari from Unique Asset Management. Please go ahead sir.

Pratik Kothari: Good afternoon sir. Sir, two questions, one on the Ethanol plant. You said at peak we will be doing somewhere around 100 crores of revenue and 20% margin, what will be the ROIC that we will be generating at that?

Murugappan: Return on investment also looking at around 20% plus.

Pratik Kothari: Okay. So, roughly we generate around 30% ROIC in our textile business and also given at one point we were trying to hive off our sugar business, so what's the thought process behind investing another 120 crores in this?

Murugappan: Basically, government has taken various steps to strengthen the sugar industry, like, monthly release mechanism of sugar, it is a quota system, and they have come out with the minimum selling price, MSP of sugar, and these are all the measures which actually strengthens the sugar business. Actually, in the ethanol power plant, the government has given us subsidy of 50% of the interest to the bank, that is one of the…that will lead to reduction in the cost of investment and also boosted the revenue of the sugar business and it will improve the profitability of the sugar division.

Pratik Kothari: Yes, agreed sir, but we are investing money in a business which we wanted to sell off and also on incremental capital it is generating a lower return than let's say if we had put up a textile unit. And hence was trying to understand this thought process, given these two points.

Murugappan: This is like, textiles we have set up very early stages and we have almost paid off all the debts and it is generating lot of cash now. And sugar is start up business and it is looking very good, the business is very promising.

P. Nataraj: Sir, actually, I also like to add, as you said, it is right, actually we had a plan like that only. But, like, suddenly selling or disposing of such a project, not just overnight we cannot do it, we are also looking for that, but after that in the last one year, we see there are lot of changes in the government policies, like release mechanism of the sugar and the minimum support price. Otherwise, sugar price would have been…see today, around Rs.20, Rs.21 level and today it is ruling at Rs.31. So, where the cost is only Rs.27, so the margin is better and the stock is also lying, every month we have to sell only this much quantity. And, government has given the interest subsidy for the stock, the working capital…for the inventory. I think, to some extent they have given…total interest will be reimbursed by the government.

This is one thing. And, adding to ethanol, again there is a value addition of selling the molasses, so there is no other raw material, only the molasses converting and selling into the…and government also has increased the ethanol price also, and for that almost for this project 90 crores government has given at 50% subsidy. So, the interest cost will be around 4 - 4.25% only. So, with all these taken into account, we will work out, at least improve the sugar profitability. And there is no question of further expansion in sugar and all these things. Only with the existing investment we are trying to maximize the profitability. So, that is the idea of doing this.

Pratik Kothari: And this ethanol will be from molasses A, or molasses B.

Murugappan: We produce B heavy molasses. We also procure from outside.

Pratik Kothari: Okay and sir usually isn't it a practice, that in the month of March we have the quarterly inventory with us for the next six months until the next season which comes in November, so what has changed this year compared to last year given the inventory jump?

Murugappan: Actually sir, earlier period we used to have two to three months start. This year the international prices are a little higher, we thought that the prices will go up, so we have covered most of our requirement in the domestic market and the quality also one of the best in the last ten years.

Pratik Kothari: Oh very good. And sir last question, what was the capex for FY19?

Murugappan: FY19 is about 35 crores.

Pratik Kothari: Okay thank you so much sir and all the best.

Moderator: Thank you sir. The next question is a follow up question from Mr. Chinthan Sheth from Sameeksha Capital. Please go ahead sir.

Chinthan Sheth: Yes sir, thanks for the follow up. One question you mentioned that 800 people are working right now and another 700 will be added. So is it the existing 10 million capacity you are talking about or incremental new capacity which you are considering post discussion with the….

Murugappan: This is for the existing capacity sir; the new capacity will be decided later.

Chinthan Sheth: Okay so total employees will be 1400 for the 10 million existing capacity?

Murugappan: Yes.

Chinthan Sheth: How much of molasses revenue we generate usually? Last year….

Murugappan: About 25 crores. 25 to 30 crore rupees

Chinthan Sheth: Okay and additionally we have incurred 20 crores of power cost this quarter itself, right compared to previous year?

Murugappan: Yeah.

Chinthan Sheth: Okay, thank you sir.

Moderator: Thank you sir. Next is a follow up question from HR Gala from Finvest Advisors. Please go ahead sir.

HR Gala: Just wanted to re-verify the ethanol number; that is 90 KLPD capacity and 300 days will generate about 27 million liters of ethanol, am I right?

Murugappan: Yeah, you are right.

HR Gala: So at Rs.45, it should give more revenue of around 120 crores.

Murugappan: Yeah, first year we have said it is about 75 crores because we are planning to commence the production sometime in November.

HR Gala: So I will say get full capacity.

Murugappan: Sir today we are looking at 100 crores place because we cannot take 100% capacity as a utilisation.

HR Gala: Okay, so how much can be the maximum utilization?

Murugappan: About 85% to 90% we can utilize.

HR Gala: Okay fine, thank you very much.

Moderator: Thank you sir. Next is a follow-up question from Shradha Agarwal from Amsec. Please go ahead ma'am.

Shradha Agarwal: Sir just one verification. You said with the improved centers we are looking at margin improvement of 2%. This is for the overall company right not for the garmenting division alone?

Murugappan: It is for the garmenting division alone madam.

Shradha Agarwal: Okay and do we have the other operating income for this year?

Murugappan: Yeah, we have. Any other thing? Other operating income is mainly export incentive…for the year it is about 91.46 crores.

Shradha Agarwal: Right and sir one more clarification. With this ethanol plant commencement, this 25 to 30 crores of molasses revenue which we do, will go away right?

Murugappan: Yeah that will go away.

Shradha Agarwal: Sure, helpful, thank you sir.

Moderator: Thank you ma'am. Next follow up question comes from Naushad Chaudhary from Systematics. Please go ahead.

Naushad Chaudhary: Thanks for the opportunity again. Just for the data correction, sir you shared 28.2 million pieces we did in 4Q right in garmenting?

Murugappan: Yeah, sales volume.

Naushad Chaudhary: So if I calculate in reverse, we have around 26 million of capacity every quarter if we have around 105 on a full year basis?

Murugappan: Yes production is about 25.5 million.

Naushad Chaudhary: Okay and versus last year same quarter how much was it sir, the sales volume?

Murugappan: 22.6 million garments.

Naushad Chaudhary: Okay and revenue?

Murugappan: Revenue was 298 crores.

Naushad Chaudhary: Okay thank you so much sir.

Moderator: Thank you sir. There are no further questions. Now I hand over the floor to Mr. P. Nataraj for closing comments. Over to you sir.

P. Nataraj: Yeah, thank you very much to one and all. We hope that we are very confident that in the current year, financial year 19-20 as the cotton inventory compared to the last five, six years, we have a very strong hold at a very excellent quality and a very reasonable price. The market is a little higher side now. So as we keep stock till the next season, this will give a better performance in the yarn segment. And regarding garment again, in the last quarter we have added 10 million capacity here in India and Ethiopia is already commenced, so these two will add further revenue in the garment and the next is ethanol, where it will also add revenue to the sugar segment and the retail, we are yet to have the launch and we hope we will try to push the maximum and we feel it will be the bread winner, what we feel in KPR in the future. We have a full team and with full capacity we are pushing and with all our experience we hope that we can reach definitely expected level. So with all these things adding and in addition to that garment, government has given an additional incentive in the last quarter where it has not been fully enjoyed, only in the last month of the last financial year and which we will get benefit in the full year; so with all these things we hope that KPR will outperform in the current year because the scenario and situations and everything looks very positive for the textile industry specially for KPR and with all your guidance, support then and there, definitely we hope we will do better than the expectations. Thank you again one and all.

Moderator: Thank you sir. Ladies and gentlemen, this concludes your conference for today. Thank you for your participation and for using Door Sabha's conference call service. You may all disconnect your lines now. Thank you have a pleasant evening.

Note:
1. This document has been edited to improve readability.
2. Blanks in this transcript represent inaudible or incomprehensible words.