

07th November, 2017

M/s. Bombay Stock Exchange Limited Phiroze Jeejeebhoy Towers Dalal Street, Fort Mumbai 400 001 Fax No. 022-22723121/719/22702037/39 Scrip Code: 532782	M/s. National Stock Exchange of India Ltd. Exchange Plaza, 5 th Floor, Plot No.C/1, G-Block, Bandra-Kurla Complex, Bandra(E), Mumbai 400 051 Fax No. (022-2659 8237/38) Scrip Code : SUTLEJTEX
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Dear Sir/Madam,

Subject: Transcript of Q2 and H1 FY18 Earnings Conference Call held on 27th October, 2017

Pursuant to the Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, kindly find enclosed a transcript of the Q2 and H1 FY18 Earnings Conference Call which was held on Friday, the 27th October, 2017. The same is also available on the website of the Company i.e. www.sutlejtextiles.com.

The Earnings Conference Call held on 27th October, 2017, as per the transcript enclosed incorporates mainly the highlights of financial results upto 30th September, 2017 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)
COMPANY SECRETARY AND COMPLIANCE OFFICER





Promoted By Dr. K.K.Birla

“Sutlej Textiles and Industries Limited Q2 and H1 FY18 Earnings Conference Call”

October 27, 2017



Promoted By Dr. K.K.Birla



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

MR. BIPEEN VALAME – WHOLE TIME DIRECTOR & CFO

Moderator: Ladies and gentlemen, good day and welcome to the Sutlej Textiles and Industries Limited Q2 and H1 FY18 Earnings Conference Call. Joining us in the call today are Mr. S. K. Khandelia – President and CEO and Mr. Bipeen Valame – Whole Time Director and CFO. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Bipeen Valame – Whole Time Director and CFO, Sutlej Textiles and Industries. Thank you and over to you, Sir.

Bipeen Valame: Thank you and good afternoon everyone who has joined this call. I welcome you all to the earnings conference call for Q2 and half yearly results of Sutlej Textiles for financial year 2018. I have with me, Shri. S. K. Khandelia Ji – President and CEO and Stellar IR Advisor, our Investor Advisors. The investor presentation has been already uploaded on the exchange and I hope everyone had an opportunity to look at it.

The first half of FY18 was challenging for the company and for the textile sector as a whole due to lingering effect of demonetization and GST implementation which had adverse effect on unorganized textile sector. Which constitute a large portion of market bringing their activities to much lower level and ultimately resulting into sluggish demand in textile market as a whole. Also increasing raw material prices, prices of power and fuel cost and dampening effect on exports due to strengthening of INR impacted margins of the company during first half of FY18.

During Q2 FY18 the company reported total income of Rs. 614 crores for Q2 FY18 as compared to 567 crores Q2 FY17. For the half year 2018 total income was 1,273 crores which show 12.5% year-on-year growth against 1,129 crores in H1 FY17. Sales volume for yarn during H1 FY18 was 53,024 metric tonnes compared to 50,225 metric tonnes for H1 FY17. Home Textile production was around 2.674 million meters in H1 FY18 as compared to 2.383 million meters in H1 FY17. Recently we have also announced to invest up to US \$5 million in wholly owned subsidiary in USA for acquisition of design, sales and distribution business along with brands of American Silk Mill, USA, which will further strengthen our Home Textile segment. Export sales stood at 355 crores in H1 FY18 as compared to 296 crores in the corresponding previous year. Export as a percentage of overall sales stood at 28% for H1 FY18 as compared to 27% H1 FY17. We export to more than 65 countries across the globe.

EBITDA margin for the quarter was 85 crores with margin of 13.8% in H1 FY18 EBITDA was reported 161 crores with margin of 12.6%. The company reported a net profit of 63 crores for Q2 FY18 as compared to 52 crores Q2 FY17. During H1 FY18 Sutlej recorded a net profit of 87 crores as against 97 crores in corresponding period previous year. EPS for H1 FY18 is at 5.31 per equity share as against 5.92 per equity share in H1 FY17.

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

S. K. Khandelia:

Thank you Bipeen. Good afternoon, everybody. I am very happy to be with you on this conference call once again and thank you very much for joining us. Q2 turned out to be more challenging than what we expected, and market condition was very bad mainly due to 3 reasons. Majority of value chain and partners after yarn are in decentralized in unorganized sector. There was never any duty on fabrics and therefore they were resistant to be the part of the formal economy. Number 2, which applies to synthetic yarn business, the GST rate was very high and duty structure was inverted. On synthetic yarn GST rate was 18% whereas on fabrics it was only 5% with specific provision of not getting any refund of accumulated input tax as credit by fabric manufactures. This was increasing the cost of fabrics except those of high value addition by 5%-6%. In view of thin margins neither the fabric manufactures nor the retailers were ready to bear this cost.

Number 3, textile industry was handing that compliance burden is very high with lot of glitches in GST IT network. Due to these reasons the domestic yarn business took a very strong beating. Domestic sales were down while demand was very low, supply was at as it is creating serious demand supply mismatch in the market place. Rate of man-made fiber went up significantly. The basic rate of PSF which was Rs. 80 per kg on 1st July 2017 kept on increasing continuously throughout the quarter and increased up to Rs. 89.50 per kg on 1st October 2017. Viscose staple fiber and acrylic staple fiber rates also increased. Power and fuel cost and other cost have also increased. In case of cotton, the yarn rates started coming down in expectation of softening of cotton rates in new cotton season on the back of good cotton crop even before the start of the new crop and falling of the cotton rates actually.

On account of these factors margins of the spinners were under severe pressure. Sales were down and inventories were increasing. However, at Sutlej we could counter most of the challenges to a large extent because of being in production of value-added yarns with variety. And we could disburse among various types of yarn for various applications and sales in various geographies. Since the domestic market was down we could increase our sales in exports to take care of slowdown in domestic uptick. We could produce variety of yarn to avoid pressure on any single type of yarn. We could run our factories to full capacity and our utilization was as usual around 95% and could sell the entire production. Expanded capacity of 35,000 and old spindles for manufacture of cotton and cotton blended Mélange yarn and dyed yarns at our Bhawani Mandi facility is slowly getting stabilized which could happen a little faster but for the bad market conditions and various GST related glitches and confusions first by exporters and garmenters who are our major buyers for such yarn.

In case of our Home Textile division which manufactures drapery and upholstery, stabilization process of increased capacity is a little longer because from developing the design and then

converting it into normal commercial orders takes about 10 to 12 months' time. Because first is small sampling, then big sampling, then further big sampling, then books and then catalogues and then the final order comes in. The process is on and going forward we will start getting benefit of the expanded capacity in this division. Domestic market in this division was also in very bad shape because of the challenges mentioned above like, lingering effect to demonetization and roll out of GST. As mentioned by Bipeen acquisition of design, sales and distribution business with blend of American Silk Mills offers a strategic fit to surplus for growth of its Home Textiles division. The strength of American Silk Mills is the capability to develop original designs based on American sensibilities and understanding of customers and unit product portfolio catering to residential contract and specialty markets with multiple grades and styles in velvets, high quality silks and with innovative indoor and outdoor performance fabrics, fine jacquard textiles, etc.

GST Council and its meeting held on 13th October 2017 reduced GST rate on synthetic yarn from 18% to 12% and that is giving a big relief to fabric manufacturers of synthetic yarn. Other compliance related issues we have also been simplified to some extent how about the challenge to come under formal economy by unorganized or organized value chain partners still remain but gradually this would also be over. In view of the inherent strength of Sutlej on back of value-added yarns, variety of yarns and natural fibers, man-made fibers, blends and wide count range in sales. Sutlej could face these challenges to large extent and we could improve our EBITDA margin from 11.58% in Q1 FY18 to 13.81% in Q2 FY18 despite the challenges. Hopefully, our EBITDA margins are better than other spinners. However, EBITDA margins are low as compared to last year due to extraordinary challenges during this period. However, I feel that going forward these challenges would be behind us and worse should be over and then we should be able to get normal margins going forward. Thank you.

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

Awanish Chandra: I totally agree with your commentary that the time is tough and all. But sir, when GST was implemented most of the player, mostly organized player even in the textile industry many commentaries came that it will help us. But by the looks of your commentary it looks like it is getting against the overall industry and the margin. So sir, your view on that I mean ...

S. K. Khandelia: Yes, going forward it is definitely going to help the organized players like us. But these are the initial glitches and initial problems and it takes little time to get stabilized such big change, historical change which has taken place. So, of course going forward these are going to be good for the industry because we will be more organized and will be able to do business in a better way.

Awanish Chandra: And sir, when I compared the margin performance at least on sequential basis it was greater right between quarter 1 to quarter 2.

S. K. Khandelia: Right.

Awanish Chandra: So margin was better despite all these glitches and problems. So what lead to this expansion in margins sequentially?

S. K. Khandelia: As mentioned during last quarter conference call that our expansion capacity at Bhawani Mandi was getting stabilized for production of Mélangé yarn that has improved to some extent and that is still getting stabilized. But it will take some time but it is better than Q1 then Q2. Number 2, this time we could export much better quantity during Q2 and could divert further to some more value-added yarns that improved our margins.

Awanish Chandra: So, product mix changes toward export and value-added yarns these 2 things has led to this margin expansion, correct?

S. K. Khandelia: Yes, to large extent.

Awanish Chandra: And what was the impact on sir raw materials because cotton prices came down recently but it was always higher even during quarter 2, right?

S. K. Khandelia: Our major consumption of cotton in value-added Mélangé yarn, where we have better pricing power as compared to normal grey cotton yarn. In case of cotton, you see good quality cotton has started getting available only now where its prices were coming down even earlier. So in anticipation of fall in the prices, prices of grey cotton yarn were also coming down and increasing the losses in grey cotton yarn. But as I mentioned we are in mostly in Mélangé and value-added dyed yarns in case of cotton, so our margins were protected.

Awanish Chandra: Sir, what would be roughly average realization for your dyed Mélangé yarn?

S. K. Khandelia: See, it depends upon the type of blend, type of shade, type of count and there are so many variables for deciding the price. And you see the cost also, suppose if it is a very heavy dark shade realization will also be higher and the cost will also be higher. But on and average it is about Rs. 75 to Rs. 100 higher than normal grey cotton yarn.

Awanish Chandra: So, if I ask this how much inventory do we have in terms of cotton currently?

S. K. Khandelia: Currently we are having normal one to one and half month inventory because the new crop is coming on. So at this point of time we do not carry much inventory except normal consumption.

Awanish Chandra: And sir even in the presentation I have gone through your acquisition of American Silk Mill in the USA. Can you just highlight a bit more on this acquisition, how this will help Sutlej to grow better?

S. K. Khandelia: You see, Sutlej Home Textile division is not very old that way. We started focusing on this division in a normal way 3-4 years back only. We expanded our capacity and as of now we are in the ordinary designs only in the curtains and upholstery. So we were looking for that how do we move value chain up. So we were looking for some sort of marketing, designing and such type of acquisition. So this American Silk Mill has a very long history of very good designs they have about 25,000 and more designs in their archives. They are very good in design, designers with them. So their designs, with their designs we would also be able to produce those designs in India. They were having manufacturing capacity also which we have not taken and that is one to be closed by them themselves. So whatever the material they were manufacturing they are of some particular qualities of Jacquard and Dobby's that we will be manufacturing in our Home Textile with their designs and that will add value to our Home Textile business. Secondly, it has given us a good footprint in USA market which is a lucrative market. So going forward, it will give strength to our Home Textile business.

Awanish Chandra: And sir, you also mentioned about industrial yarn of 28,800 spindles capacity expansion. So how that will help the Sutlej Company and sir what is the use of this thing, what is the market?

S. K. Khandelia: As of now we do not have that type of yarn in our product basket. So that will include our offering number one. These yarns are again in that particular project one is the industrial yarn which is used for say suitcase stitching, shoe stitching, back packing and many such type of applications mainly those goes for these type of stitching and some other applications of industrial use. Then other part of that expansion plan is some special blends with the special like linen, like Modal and some other blends in grey quality which we are not manufacturing at present because at present we are mainly in dyed yarn. So those blends are also been sold in grey yarn and there is good market for its special blends for those will also be produced there. But as of now, since the construction was to start on 1st October of that project and due to change in this GST we are just reviewing that project that may require some fine tune but that will be shortly we will start.

Awanish Chandra: And sir, since you are foraying into this new business, so could you just highlight what would be the market size and with whom you are competing with in this segment?

S. K. Khandelia: There are many small players, but due to GST organized players have the high role and then the specialty of yarn. There are not very large numbers of players in this particular field and then it depends upon the service, matching the quality and so many other specifications because there cannot be any quality problem or anything. So, I think that could add value to our business.

- Awanish Chandra:** Sir, one last question. Sir, your plan for the fabric because you are already installing some Circular Knitting Machines in Rajasthan, so what is sir way forward because so far it is yarn manufacturing company?
- S. K. Khandelia:** We are manufacturing Mélange yarn that is mainly meant those knitting machines are mainly used, will be used for manufacturing knitted fabrics out of our own Mélange yarn. So, many of our customers ask for the knitted fabrics instead of the yarn and once that is stabilized we hope to increase those numbers of machines also and that will have another value addition and branch out also.
- Moderator:** Thank you. The next question is from the line of Manish Oswal from Nirmal Bang. Please go ahead.
- Manish Oswal:** First question on the power tariff increased during the quarter, so what is the total absolute impact on the EBITDA margin, EBITDA number due to power tariff increase?
- S. K. Khandelia:** Due to power tariff increase approximate impact is in terms of Rupees I can tell it was Rs. 28 crores in H1, H1 this year power 16 crores. In H1 this year as compared to H1 last year power cost increased by Rs. 16 crores.
- Manish Oswal:** And secondly sir, on export side in terms of demand outlook and the customer buying program, any weakness are we seeing and how do you see the overall growth outlook over there?
- S. K. Khandelia:** Rupee is remaining hard as you know. The appreciation of Rupee is definitely putting up pressure on export margins and normally our exports are 25% of our total revenue but since at present domestic market were very bad there was no other way out except to sell the material in the exports and the exports market we will continue to maintain our share of 25% to 28%.
- Manish Oswal:** And domestic side was this relief of reduction of GST rate from 18% to 12% and secondly other reliefs how do you see the business environment uptick from the trade channels to improve?
- S. K. Khandelia:** This relates to synthetic yarn. The sentiment which was very negative has turned positive and synthetic yarn users that are weavers and hosiery manufactures. They are very positive about the growth coming back to the normalcy going forward. Sentiment has definitely changed for positive.
- Manish Oswal:** And lastly, in terms of gross margin per square feet of yarn in Home Textile per meter, could you share that number?

- S. K. Khandelia:** Home Textile used to be little higher earlier but this quarter it was under pressure because of the domestic business of Home Textile has taken a beating so it was about 12%. Earlier it used to 18%-20% in Home Textile in domestic market and exports continue to have 18%-20% margin and in case of yarn it is around 15%, normally.
- Manish Oswal:** But Home Textile do we export?
- S. K. Khandelia:** Yes, we export 25% of our Home Textile production curtains and draperies.
- Manish Oswal:** And what is the total sales volume in Home Textile in quarter 2 in H1?
- S. K. Khandelia:** Quarter two it is around 70 crores.
- Manish Oswal:** No, sales volume, volume?
- S. K. Khandelia:** Volume, quantity?
- Manish Oswal:** Yes.
- S. K. Khandelia:** Quantity as we mention, it is about 2.8 million meters which includes about 700,000 meters of the job work which we have done for others because our sales was about 2.2 million meters only and about 700,000 meters we have done for others. So, total volume is about 2.8 million meters in this H1.
- Manish Oswal:** And what is the typical realization per meter sir we generate on our Home Textile?
- S. K. Khandelia:** It is around Rs. 150 but it again depends upon the type of construction, type of raw materials and there is a difference this time. You see earlier there was no excise duty on the fabrics or any other things, no duty. So, whatever duty was on raw material used to be part of the value of the fabric now that is going directly to the GST account. So to that extent rates have come down. Though margins, because of that that is say for example in case of yarn excise duty on fiber used to be part of the value of the yarn because there was no excise duty on yarn. But now we are fiber duty we are taking credit and that goes to the pay the output duty. So, to that extent there will be a difference in the yarn prices.
- Manish Oswal:** But overall impact on the margin will not be there, right?
- S. K. Khandelia:** No, that is separate.
- Moderator:** Thank you. The next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda: Sir, I just have two questions. One on the industry side in terms of consolidation closure of capacities in any post GST, so what kind of capacities totally at the cotton yarn level including yours and the grey yarn, general category yarn? Do you think would have got close down and will not come into the system and do you see an improvement in the spread on account of ...

Moderator: We will move on to the next that is from the line of Arjun Sengar from Reliance Mutual Funds. Please go ahead.

Arjun Sengar: Sir, wanted to ask you while the topline decreased versus the first quarter because you said that now our volumes have actually increased over the year.

S. K. Khandelia: Yes. You see, the simple reason is we had added 35,000 odd spindles that our Bhawani Mandi facility that commercial production is started only on 15th March this year. Last year in H1, last year this capacity was not there. So, the production of that that has added about 70 crores of revenue to this H1 as compared to last H1. Secondly, there were expansion in our Home Textile division that is also added about 20 crores - 25 crores of revenue and then some value addition and another things has been taken place.

Arjun Sengar: No, sir I was talking about first quarter of this financial year as in our topline has decreased ...

S. K. Khandelia: As compared to first quarter of financial year in second quarter you will see the value has come down, there are 2-3 reasons. Number one, at the end of the first quarter the deliveries were very high because people wanted to take delivery of all purchased materials whatever we had in stock as they wanted to avoid GST related problem in initial 15 days-20 days. So, deliveries were very high in Q1 this financial year. Second thing, as I mentioned it in earlier the excise duty portion in fiber was part of the yarn revenue. Now that has gone to input tax credit and to that extent, the value of yarn has come down. Say for example on 1st July, the yarn which was selling at Rs. 200 at per kg the rate of the same was reduced to Rs. 195 because the excise duty portion of fiber was taken to input tax credit and that was passed on to the customers. So, because of that some reduction in the valuation will appear. Third is, there has been some increase of about 17 crores in our inventories in Q2 because of the glitches related to GST the delay, though sales were there we have been able to sell the entire material but the deliveries has been less, money market was also tight. So because of that it looks that our revenues low but the production was higher and overall everything whatever we produce we could sell.

Arjun Sengar: And in terms of volume what is the growth ...

S. K. Khandelia: Yes, in Q1 production was 24,000 tonnes and in Q2 production is 26,000 tonnes.

Arjun Sengar: And what about sales volume?

S. K. Khandelia: Sales I am telling you, in domestic sale was 20,000 in Q1 and in Q2 it was 16,000 tonnes but export sales which was 5,700 tonnes increased to 8,100 tonnes and both taken together in Q1 the total sales was 26,000 tonnes whereas in second quarter is about 24,700 tonnes. So, sales was slightly less as I said that the inventory little bit increase because people were taking less delivery at the end of the quarter.

Arjun Sengar: But do you expect the normalcy in this kind of delivery next quarter onwards?

S. K. Khandelia: I hope that this quarter will be better in terms of delivery and there should not be any further increase in inventories in this quarter. But you say in textile every day something keeps on changing.

Arjun Sengar: Secondly, what is the difference in margins between domestic and export market both in yarn and Home Textile?

S. K. Khandelia: First I take the yarn, in case of yarn if it is the same yarn, say there are normal yarns there are value-added yarns. So, in case of normal yarn the margins in domestic markets and export market normally remain the same. Little bit here and there because we do not sell in export in a lesser margin than the domestic and because everybody compares domestic and export margin, so other people also same. In case of value-added yarn, which are sellable only in export sometimes the margins are better. In case of Home Textile, margins are better in exports as compared to domestic.

Arjun Sengar: And sir, with this currency movement that is happened over the last one year let's say, last six months also, how has the competitiveness of India change versus the other competitors?

S. K. Khandelia: I think first quarter results our results far much better than competitors.

Arjun Sengar: No, I am saying India versus other countries, I am saying because of the currency movement.

S. K. Khandelia: Other countries were normal they were doing as it is. You see, Indian Rupee appreciated but our competitors say for Bangladesh is also our competitor in garments. Their Taka did not appreciate, Indonesia did not appreciate to that extent, China did not appreciate. So, in exports because of the strong Rupee we had an issue as India, as India as a whole. Then other countries say Bangladesh, Vietnam they have free trade agreements in USA, UK and various other countries, whereas India does not have any such agreement with those countries. So, there as India we feel some problem but overall except these glitches in the export market all these glitches related to GST or demonetization was more in domestic market. It has nothing to do with export except when the GST was rolled out in exports there were certain confusions because the rules were not quick as we required changes were not met timely in the exports. So, initially there were problems otherwise these events, demonetization and GST does not have much impact on exports.

- Moderator:** Thank you. The next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.
- Pritesh Chheda:** Sir, just my question was on the industry structure post-GST. Do you envisage the case were lot of the capacities we will actually not come into the system back especially in the grey yarn side which is the lower category side, your thoughts there and your thoughts on the spread movements generally?
- S. K. Khandelia:** No, I do not think that is going to happen it is a matter of time. Everybody has to get back to the business but so far yarn manufacturing is concern I do not think anybody has gone out of the business because of GST. It is a temporary problem because they are not able to sell their material, rates are down. So, losses may be there, somebody might have reduced certain quantity, certain percentage of their operation but I do not think any yarn manufacturer is going out of the business because of GST.
- Pritesh Chheda:** And second, just wanted to understand the spread movements that would have happened in the last six months in both grey and Mélange yarn?
- S. K. Khandelia:** Mélange yarn is spread is more or less intact.
- Pritesh Chheda:** And what is the number?
- S. K. Khandelia:** It is normally 5% higher than the grey yarn but during this period it may be 1% or 2% higher than because the grey yarn was down little bit more down this period. Normally the gap is margin 5% higher in Mélange yarn.
- Pritesh Chheda:** Can you give the rate per kg for grey yarn and rate per kg for Mélange yarn six months back and today?
- S. K. Khandelia:** As I mentioned that the Mélange yarn depends upon the various types of combination and specification what is the shade, what is the Mélange affect, what is the weather it is fancy or normal Mélange. So, normally the gap is Rs. 75 to Rs. 100 but average price we can take 275 and in case of grey yarn it can be Rs. 195-Rs. 200, out of that gap some portion goes to the additional cost also for dyeing and other things.
- Pritesh Chheda:** This is today, right?
- S. K. Khandelia:** Yes. This is 190 to 195 this as a benchmark that is combed quality that is 190 to 195 that is the grey yarn and Rs. 275 to Rs. 280 you can take the average Mélange yarn average rate.
- Pritesh Chheda:** Can you give the number six months back what this would be?

- S. K. Khandelia:** I do not exactly have the right now but the difference normally remains like that only.
- Pritesh Chheda:** The Mélange six months back would be at similar price?
- S. K. Khandelia:** No, what was the price of grey yarn at that time, what was the price of cotton yarn at that time but I can go to first half, first year and first half this year. Last year the average price of H1 FY17 it was Rs. 322 and another Mélange type was Rs. 231 but this has increased this time H1 2018. Cotton Mélange this time it is 337 instead of 322 and another type Mélange yarn which were 231 is 249 this year. This is the first half.
- Pritesh Chheda:** 231 is become 249.
- S. K. Khandelia:** 249, because the cotton rates is also gone up during this period.
- Pritesh Chheda:** And the spread would be similar? The spread would have compressed right?
- S. K. Khandelia:** No, it is more or less similar in case of Mélange yarn.
- Moderator:** Thank you. The next is from the line of Mehernosh Panthaki from Religare Securities. Please go ahead.
- Mehernosh Panthaki:** Actually, I wanted to know that our revenue growth has been very volatile in the first quarter and the second quarter of FY18. In the first quarter also we were facing the challenges of demonetization and there were fears of destocking due to the GST transition. But still we manage to score 18% of growth on a Y-o-Y basis and in Q2 the growth was slower at around 8% and you well mentioned the reason for that also. I wanted to know what is the sustainable volume growth according to you going forward once we expect the procedure to normalize going forward?
- S. K. Khandelia:** Our normal turnover with the capacities which we have as of now will be around 650 crores per quarter. That will translate to about 2,600 crores per annum but it all depends upon how the raw material price, fiber price because if the raw material goes up, yarn prices goes up, revenues goes up. So, it all depends if that comes down the revenue, yarn rate comes down, revenue comes down, so more or less it is likely to be around 650 crores a quarter.
- Mehernosh Panthaki:** My other question is on the margin front, we have seen operating margins of around close to 15%-15.5% over the past few quarters. Now, due to all these challenges, our margins have taken a big hit in Q4 of 2017 and since then we have recovered to close to around 13%-14% in this quarter. So, according to you can we go back to the margins of 14%-15% because you have big expansion plans and you are planning to increase the share of value-added products and Home Textiles also offer higher margin. So, can we reach margins of (+15%) in the coming years?

- S. K. Khandelia:** I think in next financial year, though it depends upon so many things but I think we should revert back to the original margins going forward.
- Mehernosh Panthaki:** But what will be the margin drivers it will be purely the value-added yarn which will add to it?
- S. K. Khandelia:** Our product range is mainly of the value-added yarns to a large extent. The margins were down due to many reasons and therefore it should return back to normal course in normal course. So, that is why I say that we should revert back to the normal margin level of 15% going forward may be next year it should be like that. But it depends upon so many things you never know.
- Mehernosh Panthaki:** You have given the rate of the difference between the cotton Mélange yarn and the grey yarn, ordinary yarn. Now you also have an incremental capacity coming up with the Baddi after 2 years. That you are purely dedicating it for manufacturing of polyester industrial yarn and other grey blended yarn. So, the pricing of this yarn is that similar to cotton Mélange yarn?
- S. K. Khandelia:** It is a specialty yarn, so it is like in that line only and margins in that products will also be better than 15%.
- Mehernosh Panthaki:** And would this specialty be purely dedicated for exports or it will be for domestic?
- S. K. Khandelia:** No. it will be both exports as well as domestic.
- Mehernosh Panthaki:** And one more question. Your tax rate, if we look at 2016-2017 they have been in the range of 16% to 17% and suddenly we have seen a sharp jump in first half of 18% to 27%. So, I just wanted to know the reason for it. Is it due to the one-time income this quarter and if yes then what will be the effective tax rate going forward over the next two years?
- S. K. Khandelia:** It is due to exceptional income, so there has to be a provision of deferred tax. Due to that it has gone up otherwise we will continue to get MAT.
- Mehernosh Panthaki:** So including deferred tax, I can expect your total tax on ...
- S. K. Khandelia:** Including deferred tax if you will see, it is higher otherwise going forward and as per our calculation we are going to have around 20% tax rate.
- Moderator:** Thank you. The next is from the line of Poonam Sharma, an individual investor. Please go ahead.
- Poonam Sharma:** If you could just tell us on the Home Textile segment what would be the contribution to our total revenues of the job work that we do?

- S. K. Khandelia:** Job work, you are asking for the total revenue?
- Poonam Sharma:** Total revenue, yes.
- S. K. Khandelia:** Job work total revenue in this quarter is 6.34 crores in this quarter.
- Poonam Sharma:** 6.34 versus how much would it be last year?
- S. K. Khandelia:** 6.34 crores in this quarter and for the first half this financial year it is about 12 crores.
- Poonam Sharma:** And sir, last year do we have a similar number?
- S. K. Khandelia:** Yes. Last year it was also about 11 crores in the first half against 12 crores this year because some capacity has gone up.
- Poonam Sharma:** Sir, my second question was on the acquisition that we did in USA. Would you be able to guide us on as to how the numbers would reflect in our total in terms of revenue and profit and from then onwards can we expect that to come?
- S. K. Khandelia:** At present their turnover is around, revenue is about US \$10 million at present and in next 3 years times we expect the revenue to go up to US \$22 million-US \$23 million. So that translates to about say around 150 crores of revenue.
- Poonam Sharma:** And sir profitability, any color on that?
- S. K. Khandelia:** We expect the EBITDA level of 15%-16% because it is a trading activity basically. So, in their case we will expect the EBITDA level of 15%-17% in next 2-3 years' time.
- S. K. Khandelia:** So, currently is it at 15%-16% or is lower than that?
- S. K. Khandelia:** Currently it is low, it is about 7%-8% only. So, it will go up because once they get the strength of our working capital and other things and they will have little cost reduction also.
- Poonam Sharma:** Sir, this will then move to 15%-16% as what we had expected?
- S. K. Khandelia:** Yes, in 2-3 years' time it should move to 15%-16%.
- Moderator:** Thank you. The next is from the line of Arjun Sengar from Reliance Mutual Fund. Please go ahead.
- Arjun Sengar:** Sir related to this acquisition that you have done this you have basically acquired the design team, right?

- S. K. Khandelia:** Design, marketing and distribution.
- Arjun Sengar:** When you say you will do \$22 million-\$23 million of sales that means it is through that design, market and team right?
- S. K. Khandelia:** Yes. I just explain to you. They have an arrangement with Asahi Japan for Sunset. So they are exclusive distributor in USA for Sunset Japan, number one. This is one of their verticals, another they are selling velvet from JB Martin of Brussels that is their another vertical. Third, they were taking some silk and other fabrics from China that they are selling. Some fabrics like which we manufacture in our Home Textile that is Jacquard and Dobby that they were manufacturing in USA itself and that portion they are going to close and that we have not taken, operating part we have not taken. Those types of fabrics we will be manufacturing in India will be sending to them. All taken together they are selling to various residential contract, furniture market, even hospitality business, hotels so, indoor fabrics, outdoor fabrics. So they have many verticals in markets. Earlier 4-5 years that their turnover was about \$30 million but because of financial stress of that manufacturing facility the business was going down. So, it is a perfect fit once they will have the adequate margin working capital with them and that the stress of manufacturing is gone, we hope that in 5 years' time their revenue will go back to 30 million and in 3 years that should go to 20 million-22 million but that is basically acquiring material from outside whether it is little bit from us and outside and they will market it.
- Arjun Sengar:** And on that trading business they will do 15%-17% margin?
- S. K. Khandelia:** 15% to 16% margin.
- Arjun Sengar:** And sir how many members are there in the design team?
- S. K. Khandelia:** At present there are 4 American designers and they take on contract basis also as and when required.
- Arjun Sengar:** And secondly related to this GST, are you getting credits on time?
- S. K. Khandelia:** No, we are getting input credit we have to take ourselves the input credit and that is used for output duty. So, in case of refund that is the issue say if, when we export the material we have to charge the GST, IGST and that refund we have to take. So, that is getting late because July refund has not yet come. They have started giving, going forward it will be normal.
- Arjun Sengar:** On a quarterly basis how much does that refund work out to be?
- S. K. Khandelia:** So, overall I have seen that our working capital requirement because you see everything is subject to GST, whatever material we sell is mostly on credit basis. So, earlier there were only

12.5 now it is 18%. So, taking into account our entire working capital requirement is gone up by about Rs. 80 to Rs 100 crores. Refunds may be about say our export

Arjun Sengar: Rs. 80 crores to Rs 100 crores per annum you say?

S. K. Khandelia: Refunds may be about 20 crores-25 crores per annum.

Bipeen Valame: Yes, 80 crores to 100 crores per annum.

Arjun Sengar: And refunds are 20 crores to 25 crores that you would be getting per annum?

S. K. Khandelia: That is normal that is I do not expect any problem. This is a temporary problem because the government is setting the systems and other things to be online. So, that I do not find any problem because of that.

Arjun Sengar: And lastly this new cotton season that has begun prices have come up a little bit for grey cotton.

S. K. Khandelia: Yes.

Arjun Sengar: What is your expectation of the market, the yarn market over the next 3 months to 4 months season what you have seen? I am not talking about Mélange yarn I am just talking about normal grey yarn.

S. K. Khandelia: Grey yarn depends upon again if you see the export of grey yarn is less as of now because China is talking less than earlier what is, so there is pressure on domestic market. So, that pressure has to ease by exports or any other things. So, I think the market condition of grey yarn should be little better but I do not expect very dramatic improvement but definitely it should will little better with the induction of the new cotton which will have lower rates. So, the losses which were there should be should not be there.

Arjun Sengar: But you do not expect the normal margins to return back soon?

S. K. Khandelia: I think in Q4 the margin should be normal in grey cotton yarn which used to be there. Q4 this year should match with the Q4 of last year or last before.

Moderator: Thank you. The next is from the line of Hardik Solanki from Moneybee Investments. Please go ahead.

Hardik Solanki: On front of acquisition, I wanted to know that business is core into trading right?

S. K. Khandelia: Yes.

- Hardik Solanki:** So, from where we are sourcing the finished goods?
- S. K. Khandelia:** As I mentioned they have arrangement with the Asahi Japan for velvet they have arrangement with Brussels JB Martin and D'Ettoffe and other some yarns they have silk yarn, silk fabrics they are sourcing from this China, they are sourcing some fabrics from other countries also and they will be taking some fabric from us also from our Home Textile division.
- Hardik Solanki:** And sales would be entire in America, right?
- S. K. Khandelia:** Yes, as of now their entire sales is in USA but since it is a registered trademark with that trademark they can sell anywhere in the world.
- Hardik Solanki:** And what is the employee's strength in the acquired company?
- S. K. Khandelia:** Because it is mainly trading company and there are earlier about 12 supporting staff for this logistics functions, accounting functions and about 8-10 other president is there and designers are there, marketing team is there. So team is not very big, about 12 are supporting staff and about 8 and 10 executives.
- Moderator:** Thank you. The next is from the line of Dhiral Shah from Asit C Mehta. Please go ahead.
- Dhiral Shah:** Sir, wanted to know sir currently our Home Textile is contributing only 5% of the overall revenue. So, do you have any target to reach a ballpark figure by let's say 20-20?
- S. K. Khandelia:** We do have to reach about say 15%-20% of our revenue going forward in say next 5 years. But it say totally say we are in curtains & upholstery. So, in this vertical it is very difficult because our yarn revenue is continuously going up. So, reaching the 15%-20% of total revenue we do target to reach about 15% in next 5 years but let us see how the things work.
- Dhiral Shah:** And sir what is the proportion of value-added yarn in the overall yarn business?
- S. K. Khandelia:** About 35%.
- Dhiral Shah:** And any ballpark figure to reach particular level by 20-20 in this segment also?
- S. K. Khandelia:** I think we are continuously increasing our portfolio of value-added yarns.
- Dhiral Shah:** And sir regarding your debt, any debt reduction plan?
- S. K. Khandelia:** Yes, already have our debt-equity ratio is much below. It is may be around 0.7 only, we do not have much debts.

- Dhiral Shah:** So, you have working a short term and long term, so every year you are paying something?
- S. K. Khandelia:** Yes, that will continue in a growing company but we always maintain our debt equity ratio below 1 irrespective of revenue expansion any project or anything.
- Bipeen Valame:** And repayment is around typically 90 to 100.
- S. K. Khandelia:** We generate much higher tax profit than our annual repayments or anything.
- Dhiral Shah:** So, this 225 crores expansion you are doing so it will be purely debt funded or it will be a mix of internal?
- S. K. Khandelia:** No, it will be about 35%-40% will be our own money and rest will be only debt.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question, I now hand the conference over to Mr. S. K. Khandelia for his closing comments.
- S. K. Khandelia:** Thank you very much for joining us for this conference. As you all know the times were very challenging, as I mentioned that I hope that worst should be behind us and whatever the unorganized sector related issues are there should be over in this quarter or next and from next financial year, I think the things should be as usual normal and the business should be as we used to be there, and margins should also improve. Thank you very much.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of Sutlej Textiles and Industries Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.