



“KPR Mill Q4 FY 2016
Post Result Conference Call”

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Moderator: Ladies and gentlemen good day and welcome to the KPR Mill Q4 FY 2016 post result conference call hosted by Batlivala & Karani Securities India Private Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * and then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Perna Jhunjhunwala from B&K Securities. Thank you and over to you madam!

Perna Jhunjhunwala: Good evening everyone. On behalf of Batlivala & Karani Securities, I would like to welcome you all for Q4 FY 2016 KPR Mills result. From the company we have with us the senior management including Mr. P. Nataraj, who is the Managing Director, Mr. Murugappan who is the CFO of the company and Mr. Kandaswamy, who is the company secretary. I would now like to hand over the call to the management for your comments.

P. Nataraj: Very good evening. I am Nataraj. I welcome you all for attending the KPR Mills fourth quarter earnings call. Along with me I have Mr. Murugappan, our Chief Financial Officer and Mr. Kandaswamy, our Company Secretary. I will begin with a brief summary of our performance.

KPR could repeat a better performance during the quarter also. Though the industry as a whole experienced some challenges, KPR with its unique features recorded higher profitability over the previous year but for the decline in cotton prices which impacted the revenue from yarn, our topline could have been higher otherwise. Conversion of conventional yarn capacity to value added yarn is completed, that is compact yarn. 12 million Greenfield garment capacity commissioned during last year has reached its full capacity during the fourth quarter of this year. I am happy to inform you that the new 36 million Greenfield garment facility was commissioned on April 24, 2016, that is the last month. With this our garment capacity is doubled in the last two years that is from 47 million pieces to 95 million pieces. Now, KPR is one of the largest garment manufacturers in the country. Ramping up of new facility will take place during the current financial year. To meet the needs of garment capacity expansion we are doubling the processing capacity by adding advanced cold process technology that minimises water consumption thereby reducing cost of production, in fact we have did the bhoomi puja for the expansion of the processing capacity which is from 25000 kilos per day to 50,000 kilos. In the last two years, cotton prices were stable. National and international cotton balance sheets reflect comfortable position and also monsoon prediction is also positive. As the future outlook is encouraging I am confident that prices may stabilize at this level. During this year power

cut has been lifted in Tamil Nadu. Sugar prices started moving up. The outlook for sugar market is positive and our performance will be better in the coming year. With increased garment and processing capacity strategic move towards more value addition in yarn, KPR a vertically integrated textile company having strong fundamentals is expected to achieve further growth in the coming years. Thank you. Now, Mr. Murugappan will take you through the financials.

Murugappan:

Good evening all. I am Murugappan, the chief financial officer of the company. We hope you would have gone through the financial and the presentation. In textile market, the prices of cotton and yarn travel together. Since cotton constitutes major factor of cost of production. During the year, over 15% drop in the cotton prices declined the yarn revenue as well as the topline growth, however higher margin garment segments minimum financial cost, strategic utilization of resources and improved operational efficiency enabled higher profit. Other expenses include one time cost of conversion of conventional yarn to value added yarn capacity amounting to Rs.27 Crores incurred during the year. With the uptrend in the market and prospective plants initiated by KPR we hope to achieve further progress in the future.

Financial: Our consolidated business posted revenue of 719.99 Crores in the quarter and 2591.09 Crores for the full year. EBITDA for the quarter stood at 117.07 Crores with a margin of 16.3% for the quarter and Rs.492.53 Crores with a margin of 19% for the full year. Profit after tax for the quarter stood at Rs.54.47 Crores with a margin of 7.6% and Rs.210.11 Crores with a margin of 8.1% for the full year. In the financial year 2016, we have reduced the long-term debt by 211 Crores and the term loan outstanding as on 31/3/2016 stands at 273 Crores. Consequently, our interest cost has come down, year on year basis. Net debt equity ratio is 0.26. In terms of revenue mix, yarn 43%, garment 27%, fabric 15%, sugar 9%. Our exports are 36%, and domestic 64%. We now open the floor for questions.

Moderator:

Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We will take the first question from the line of Kashyap Jhaveri from Capital 72 Advisors, please go ahead.

Kashyap Jhaveri:

Good afternoon Sir and congratulations for great set of numbers. Just wanted to check you mentioned about 27 Crores one time cost that was in this particular quarter included in other expenses?

Murugappan:

Yes Sir, during this quarter.

- Kashyap Jhaveri:** Second question is on your spread of yarn over cotton, how has it moved on Q-on-Q versus Y-on-Y basis? The difference between yarn thread and cotton, the TUF margins in yarn business, how has it moved quarter on quarter as well as versus same quarter last year?
- P. Nataraj:** The cotton price actually went down around 17%; there was a difference of 2% between cotton and yarn.
- Kashyap Jhaveri:** You mean to say that cotton prices went down by 17% and yarn prices were down by 19%, is that what you are saying?
- P. Nataraj:** Yes, you are right.
- Kashyap Jhaveri:** Sir, the expansion plans or for 120 Crores, could you throw some light as to how it would be ROC accretive or what would it add in terms of value to the profitability?
- Murugappan:** We are investing 100 Crores for processing and 20 Crores for the printing, both are value additions for the garment and if you take processing as individual division, the margin will be equal to the garment which will be because of the internal processing, so it will add to the profitability to garment.
- Kashyap Jhaveri:** In last conference call you had highlighted that garment margins are about 26%, so this would add how much more to the total garment margins?
- Murugappan:** Sir, garment margin expected to maintain at this level for year.
- Kashyap Jhaveri:** In terms of margins how much would this add more to?
- Murugappan:** For the new garment expansion.
- Kashyap Jhaveri:** Sir you recently announced upgraded processing facility by about 100 Crores or so, now how much would that add to your overall margins?
- Murugappan:** The garments what we have has 26% margin, we are taking as a composite unit, processing as well as garmenting which supports the garments, otherwise the margin will be low, this is what we have, the existing capacity of 47 million pieces and the margin what we are getting today around 27% that is because of support received from the processing, otherwise when we go for job work or when we do it outside we have to cut down that margin to third party or who is supplying the fabrics.

- Kashyap Jhaveri:** How much cost will this expansion save you? How much can it save to you for processing as a percentage of let us say garment sales, how much will this be?
- Murugappan:** Are you asking the project cost?
- Kashyap Jhaveri:** I am saying when you upgrade the facilities or let us say when you are pressing in.
- Murugappan:** It will save around 10% percentage of the processing cost.
- Moderator:** The next question is from the line of Abhijeet Dey from BNP Paribas Mutual Fund, please go ahead.
- Abhijeet Dey:** Good evening everyone, just a few housekeeping questions. Can you just give us a breakup between yarn and fabric in terms of volumes and revenue for Q4?
- Murugappan:** For fourth quarter yarn production is 20,910 tonnes and sales is 17,715 and fabric 6719.
- Abhijeet Dey:** In terms of revenue also that will be great, if you can give the breakup?
- Murugappan:** Yarn 324 Crores, fabric 100 Crores, put together 424.
- Abhijeet Dey:** There seems to be a fall in fabric prices Sir, YoY?
- Murugappan:** Both yarn price and fabric price has come down since the raw material price has come down sharply, about 15 to 17% of cotton prices have come down resulting in lesser realization in the final product.
- Abhijeet Dey:** Fabric volumes you said, sales volume would be how much sir?
- Murugappan:** 5373.
- Abhijeet Dey:** Sir, what would be the capex budgeted for this fiscal year?
- Murugappan:** Apart from 120 Crores of expansion plan in processing, we expect something around 50 Crores will be the regular capex.
- Abhijeet Dey:** Sir, in terms of the overall debt reduction on the long term side, what could that be sir this year?

- Murugappan:** This year we expect to repay regular repayment up to 100 Crores, balance depending upon the cash flow position.
- Moderator:** The next question is from the line of Harini Dedhia from Value Quest, please go ahead.
- Harini Dedhia:** My question was on getting an outlook on the garment prices and the volumes, so what are you expecting in terms of garment realization in FY 2017 and how many pieces are you expecting to sell next year?
- Murugappan:** We are expecting around 60 million garments for this year with the newly commissioned factory. The ramping up has already started, so it will be fully operational at the end of this financial year. The realization is again depends on the style of the garments. Now the average realization is around Rs.130 our main focus is to increase the capacity utilisation so that we will maintain this Rs.130 slowly we will try to increase the price realization.
- Harini Dedhia:** In terms of yarn realizations, what is your outlook for FY2017? How do you expect that to move?
- P. Nataraj:** We hope that this will improve because for the last one year it was towards the downtrend only and after that from 2017 January onwards that was arrested. Now it is little bit moving up. In fact today is the first day of this month in this region. Largest manufacturing hub is Tiruppur. At the beginning of every month price will be fixed and today there was increase of Rs.7 per kilo because of the slight raise in cotton price in the last two weeks. So already Rs.7 per kilo has increased. We hope that now the cotton season is over and we hope that in the coming quarter or the next quarter the price will stabilize or move upwards.
- Harini Dedhia:** Thank you so much. That is all from my side.
- Moderator:** Thank you. The next question is from the line of Manish Oswal from Nirmal Bang Securities. Please go ahead.
- Manish Oswal:** Good set of numbers. My question again on overall outlook on cotton yarn demand supply scenario in India and secondly in terms of price decline of 15% so it is entirely passed to the customers or we have some benefit taken to the P&L?
- P. Nataraj:** First of all, overall scenario looks very positive, because almost one year, it was a very long slip. If you see within the last 10 years, normally the season will be fluctuating three to four months. But it is a continuation of almost 12 months downtrend and that is why general industry is expecting that. Even now it is moving upwards, this also will be for a long time. So definitely this year 2017 will be very positive for the textile industry and especially for

yarn and we are able to realize that. Now itself in the last two months the demand is good in the domestic market and ultimately when the domestic market absorbs more quantity and automatically the export market also has to improve. So if you see the last two weeks already the price has moved up in the international market and domestic market also and especially today already the price Rs.7 per kilo has increased in the domestic market and we are confident that this trend will continue. Ultimately once yarn price increases then the final product or the garment's price will move up. So that is the situation now. Similarly whenever the cotton price moves up or down, the yarn price also moves in the same direction. There will be plus or minus 1 or 2% based on this. Sometimes the cotton price will be 2% down or the yarn price or vice versa. When you take a cycle of 12 months, the difference will be almost negligible if both moves in the same direction.

Manish Oswal: Secondly, in yarn business what level of inventory where you maintaining?

P. Nataraj: It is one week stock.

Manish Oswal: Lastly on the entire yarn business because we are also doing some value added manufacturing, so in terms of realization differential between your commoditized yarn versus your value added yarn that is Melange Yarn or Color Yarn, so what is the price differential right now.

P. Nataraj: The difference goes up to from 5% to 10%. We have different kinds of Melange, the polyester mix and **slub** yarn and compact yarn. So there are various value additions are there even in colour yarn also. So the price difference will be like 5% to 10%. It varies depends on the value addition.

Manish Oswal: And this VSF and polyester price movement how has that been during the quarter?

P. Nataraj: There is no much difference. If you say that this moves on day-to-day basis like that, whenever we cover there is not much difference, maybe plus or minus the maximum of 2%.

Manish Oswal: Thank you.

Moderator: Thank you. The next question is from the line of Vishal Gajwani from Birla Sunlife. Please go ahead.

Vishal Gajwani: Thanks for the opportunity. Sir first question was on Rs.27 Crores of cost that has been incurred in this quarter to convert the yarn capacity, so if you can elaborate that, is this one time in nature.

- Murugappan:** It is one time in nature. During the year what we have done is we have converted about 168000 spindles from the conventional yarn capacity to compact yarn capacity. With this we have almost 90% of the capacity converted to compact yarn facility. Only 22000 spindle is in conventional yarn facility now.
- Vishal Gajwani:** Sir what is the kind of margin benefit in the yarn space because of over value addition there now.
- Murugappan:** Compact yarn and conventional yarn will give a difference of about Rs.5 per kilo.
- Vishal Gajwani:** Sir in terms of EBITDA margins what is the impact expected to be?
- Murugappan:** EBITDA is about 2% increase.
- Vishal Gajwani:** 2% increases, Sir what is the rationale of expensing it in a particular quarter, would not you have capitalized this cost?
- Murugappan:** Sir, it is only attachment to the existing machine. It will not increase the production only the quality of the yarn will increase.
- Vishal Gajwani:** Sure. Second question was on the garmenting business, I understand the capacity has come on stream and you are going to ramp up in FY2017-2018 how is the US market shaping up in terms of garmenting demand because I believe new supplies are going to come from that market?
- P. Nataraj:** Already 70% of our business is in European market. Now only we have entered into the USA market and it is very positive. Orders are good and already we have two customers from USA and in the last quarter also we have added one more customer from US. We are looking more into because our value addition and volume is increasing. USA customers are with bulk volume and there already the negotiations are going on with two more customers. So overall market looks very positive from European market also
- Vishal Gajwani:** Sir, firstly your garmenting capacity or production is going to expand in FY 2017 by around 30% plus your yarn margins will go up because of more value additions, so overall basis your EBITDA margins on the textile front what should they look like in FY2017?
- Murugappan:** It is expected to move from present level of about 17% to 20%.
- Vishal Gajwani:** In FY2017?

- Murugappan:** In FY2017, 20%.
- Vishal Gajwani:** Sir also on the sugar front if you can tell us what is happening there, international prices are up, even domestic prices are up, and so what is the outlook there?
- P. Nataraj:** Now, after a long waiting I think now the price has gone up and even the international price are even still higher than the domestic price. So that is why we are also expecting further upward movement in the sugar prices. So we are holding stock for almost last two months. The price was quoting around Rs.33 or Rs.34 per kilo, so we have started now selling. Previously when we see the last year our average price was around Rs.22 or Rs.23. Now it is almost Rs.10 or more than Rs.10. We hope that the average price will be more than Rs.34. It will be very positive on the sugar and we hope that this will support the profitability of the company.
- Vishal Gajwani:** Thanks a lot. That is all from my side. All the best.
- Moderator:** Thank you. The next question is from the line of Dhawal Shah Girik Capital. Please go ahead.
- Dhawal Shah:** Sir, my first question is for the processing which you have put up, so you mentioned the process will have an EBITDA margin same as the garment facility?
- Murugappan:** Yes.
- Dhawal Shah:** So garment you mean in the standalone garment facility and not the integration margins?
- Murugappan:** Garments generally it is integrated margin, processing and garments.
- Dhawal Shah:** So, this 25% margin what you say is because of you are integrated from yarn to garment or from the processing to the garment?
- Murugappan:** Processing to garment.
- Dhawal Shah:** Processing to garment. So this processing facility will also have similar kind of margins?
- Murugappan:** Yes, similar.
- Dhawal Shah:** Sir, 45 million pieces for this year in garments so how should we read capacity utilisation in this?

- Murugappan:** Capacity utilisation in the range of 75% is under installed capacity.
- Dhawal Shah:** Sir that installed you will take at 59?
- Murugappan:** Yes. That is how we calculate, 59.
- Dhawal Shah:** So any further chances of improvement in this?
- Murugappan:** Sir, it has been conservatively estimated. We hope to improve the performance.
- Dhawal Shah:** On the last call, you mentioned around 80% is the best utilisation level what you can reach in this?
- Murugappan:** Yes.
- Dhawal Shah:** So on conservative basis, you are saying 70%?
- Murugappan:** Yes.
- Dhawal Shah:** That is all from my side.
- Moderator:** Thank you. The next question is from the line of Harshal Shah from Anvil Research. Please go ahead.
- Harshal Shah:** Sir, can you give me EBITDA breakup for yarn, fabric, garment and sugar, like we did EBITDA of 493 Crores?
- Murugappan:** EBITDA for yarn and fabric 15%.
- Harshal Shah:** 15% of the EBITDA contribution?
- Murugappan:** Yes. You are asking the breakup in the EBITDA percentage, I am telling you on the turnover basis?
- Harshal Shah:** On the turnover basis, so 15% of the margins you are saying?
- Murugappan:** EBITDA margin.
- Harshal Shah:** Yarn and fabric, EBITDA margins 15%.
- Murugappan:** Garment 26%.

- Harshal Shah:** 26% for the full year basis?
- Murugappan:** Full year basis, sugar is 16%.
- Harshal Shah:** Sugar?
- Murugappan:** 16%
- Harshal Shah:** And one more thing, can you give me sugar inventory Sir?
- Murugappan:** It is about 52000 tonnes now.
- Harshal Shah:** Sugar inventory is 52000. Sir, can you give me current yarn realizations and the cotton prices per candy?
- Murugappan:** It is about Rs.190 per kg, cotton per kg is about Rs.102.
- Harshal Shah:** Thank you.
- Moderator:** Thank you. The next question is from the line of Pritesh Cheddha from Lucky Investment Managers. Please go ahead.
- Pritesh Cheddha:** Sir, on this yarn and cotton price the last Rs.190, what was the lowest recorded? I think that was around Q3. What was the lowest yarn prices recorded or reported by us?
- Murugappan:** Lowest is Rs.182.
- Pritesh Cheddha:** From there this Rs.7?
- Murugappan:** There was an increase of Rs.8.
- Pritesh Cheddha:** So when we analyse your Q3 numbers, and when we analyse your Q4 number at least the Q4 number largely would be at Rs.182?
- Murugappan:** Yes.
- Pritesh Cheddha:** This would have come down from a peak of Rs.230 a kg?
- Murugappan:** Sometime back in 2013.
- Pritesh Cheddha:** That was about four quarters back?

- Murugappan:** Yes.
- Pritesh Cheddha:** My second question is on the Rs.5 spread on account of compact yarns now most of your facility gets converted now and this Rs.5 per kg gets realized in FY2017?
- Murugappan:** Yes.
- Pritesh Cheddha:** So which means from this quarter when you are selling, you are selling most of it as compact yarns against conventional yarns and you are realizing Rs.5 to Rs.7 extra.
- Murugappan:** Rs.5 extra.
- Pritesh Cheddha:** That is how the assessment is?
- Murugappan:** Yes Sir.
- Pritesh Cheddha:** When did this get commissioned Sir?
- Murugappan:** By end of March.
- Pritesh Cheddha:** End of March?
- Murugappan:** It was commissioned over the period of time, it is completed by end of March.
- Pritesh Cheddha:** Some of it would have also flowed in Q4?
- Murugappan:** Some of them. This is small portion that would have flowed.
- Pritesh Cheddha:** My last question is the capacity utilisation in garments what in your opinion is the maximum possible actually because we all have registered an 80% utilisation on our mind and hence we are expanding our new capacity, but is the utilisation above 80% possible or it is not possibly only?
- Murugappan:** 80% is not possible, about 75% 1% or 2% plus or minus is possible.
- Pritesh Cheddha:** 75%?
- Murugappan:** 75%.

- Pritesh Cheddha:** When you gave out the thoughts of achieving 60 million pieces in FY2017 what kind of order book do we have as of now, what kind of visibility do we have on this 60 million pieces and what kind of ramp up is possible if you could give some idea there?
- Murugappan:** Presently it is about 350 Crores order book is there and ramping up will happen step by step. We will train people in batches may be 500 to 750 people in a batch. It will take some 60 days of time and the ramping up will happen in four to five stages.
- Pritesh Cheddha:** So, which means you do not have the 60 million piece order book as of now. The order book will also build over quarters?
- Murugappan:** We are not accepting a long-term order and seasonal basis we accept the orders. Generally the season is two seasons, one is winter and another one is summer.
- Pritesh Cheddha:** This 350 Crores how does it look versus when you opened last year?
- Murugappan:** It is something around 200 Crores.
- Pritesh Cheddha:** So you are opening 150 Crores higher than the 200 Crores last year.
- Murugappan:** Since we are ramping up and the new facility is also on the production line, we have increased it.
- Pritesh Cheddha:** You are fairly confident of achieving 60 million. What would be the risk to this 60 million pieces?
- P. Nataraj:** The risk is very low while we expect to achieve it comfortably.
- Pritesh Cheddha:** Any reason for that? Is it from the same clients that this built up is there?
- P. Nataraj:** Sir, already this year we have done 45 million pieces. Also we have orders in hand. Tirupur facility is already running with full capacity and in 12 million new facility which was commissioned last year ramp up was completed. Now with full capacity it is running now. So, it is added to the mainstream. In the new facility we have commissioned 36 million pieces, we have conservatively estimated for this 36 million capacity only 12 million garments will be manufactured in his new facility. So, with 45 we have added only 15. So, 60 million is very comfortable. We are very positive and it could be 61 and I am confident it will not be 59 million.

- Pritesh Cheddha:** Have we added any clients overtime or it is largely coming from the same set of clients whom we have been servicing?
- P. Nataraj:** We had 45 clients and added six clients in the last year in 2015-2016. Even now we are negotiating with three more large customers. For the new factories this discussion is going on. The code of compliance and inspection, auditing and all these things are happening. So after everything is finalized then they will be placing the order
- Pritesh Cheddha:** Lastly what kind of volume growth is possible in yarn's business?
- P. Nataraj:** In yarn there is no expansion as of now, so we will maintain the same volume.
- Pritesh Cheddha:** Only value addition will drive the growth?
- P. Nataraj:** Yes, volume addition will be there.
- Pritesh Cheddha:** Thank you very much and all the best.
- Moderator:** Thank you. The next question is from the line of Kashyap Jhaveri from Capital 72 Advisors. Please go ahead.
- Kashyap Jhaveri:** In a sort of earlier calls, our conversation you were highlighting that this new capacity which you are putting up, sort of is located to some of the old European clients, so would not that be like an order book? In the earlier question you had highlighted that the order book is like the orders are coming in?
- P. Nataraj:** You are right.
- Kashyap Jhaveri:** So, in which case, I mean, does it mean that orders are already in hand or it is just that we have allocated the capacity and now as and when the clients comes back playing from those capacities?
- P. Nataraj:** Capacity allocation will happen depending upon the ramp up. Once the ramp up is happening, based on that the capacity will be allocated.
- Kashyap Jhaveri:** So, 12 million pieces capacity, which we have today, has it been already booked by clients?
- P. Nataraj:** Yes.
- Kashyap Jhaveri:** So those are the orders that we already have in hand?

- P. Nataraj:** Yes Sir.
- Kashyap Jhaveri:** During the call, I missed out on this debtors have sort of risen quite bit over the last year March and as well as over second quarter and consequent short-term debt is also up quite a bit, so what would have driven that?
- P. Nataraj:** Sir, mainly garments is sold on credit. Generally it is 90 days to 120 days credit. When the garment sales are going up, the debtor level also go up.
- Kashyap Jhaveri:** I mean, versus yarn, does the garment has an extended debtor days?
- P. Nataraj:** In exports the material takes time to reach to the destination, so in current year it will be there.
- Kashyap Jhaveri:** Sir, how much would be the difference in terms of let us say trade receivables days versus yarn and garment?
- Murugappan:** Yarn is about 45 days and garment is about 100 days.
- Kashyap Jhaveri:** Thank you.
- Moderator:** Thank you. Our next question is from the line of Vikas Rajpal from East India Securities. Please go ahead.
- Vikas Rajpal:** Sir, I had a question on the cotton consumption during the quarter? What is the quarter consumption in volume and in rupee terms?
- Murugappan:** Sir in terms of volume 25839 tonnes of cotton, value is 263.74 Crores.
- Vikas Rajpal:** Sir, why was the sugar business a bit low despite the crushing season?
- P. Nataraj:** Sir prices are moving up. We are waiting for the market to strengthen. Presently we are holding a stock of about 52000 tonnes of sugar. The profits will be booked during this year.
- Vikas Rajpal:** Sir, lastly on the employee cost. The employee cost this quarter was around 1% higher than what it was in the previous year same quarter. So why was the employee costs higher during this quarter?

- P. Nataraj:** Sir, we have added capacity in Thekkalur capacity and also we are taking people and training them for the newer capacities that is the new Quantum III Unit so the cost is a little high.
- Vikas Rajpal:** Thank you very much. All the best.
- Moderator:** Thank you. The next question is from the line of Sunil Kothari from Unique Investments. Please go ahead.
- Sunil Kothari:** Thank you very much. Congratulations Sir for very good performance during this tough and challenging reducing price scenario. Sir, I have two questions. One is this additional processing capacity from 25000 to 50000 kilo per day. Will it be sufficient for 95 million pieces of garments or will require further?
- P. Nataraj:** It is enough. The 50000 Kg processing capacity is enough for the 95 million capacities.
- Sunil Kothari:** Sir, second thing is during last year or two, I visited your facility and very impressive work we are doing, so what type of new clients or new value added products or maybe high price products are we shifting from embroidery products and all these things? What is the new qualitative development, which will enhance our realization per piece may be a year or two onwards?
- P. Nataraj:** The customers, depending on the seasons, place the orders and we are able to see a lot of printing and embroidery orders. Actually now we are spending not only for processing, Rs. 20 Crores we are spending on the printing. Whenever we get the orders for printing, either we have to give it outside for the job work or for the printing. The cost as well as the benefit we have to share it now. The customers are also insisting us to setup a printing factory so that we can do more printing orders instead of plain garments. Thereby the value additions also will be there, price realization for garment will be more and margins also will be better. So moving towards we have started constructing the factory and it will take another six months. May be in the third or fourth quarter onwards the printing also will be operational, thereby it will increase the value addition as well as better realization.
- Sunil Kothari:** One more thing, last year we have faced during sometime the power execution problems, wind power we were generating but we were not able to because of Grid connectivity not able to use. Any change in that scenario, can this power cost come down?
- P. Nataraj:** Already, because the power consumers or the Windmill Association has approached the court and the court has given the direction that the state government cannot stop these

windmills as per law. This was not properly carried out by the state government and actually now the Supreme Court has given the direction that the government should not have stopped the windmill. We are confident and we hope that because in the last two years this has continuously happened, they have stopped it because of the Grid nonavailability and they said it is not available. Evacuation happened even three years before. And now it is the state election time. Now the state government plus Tamil Nadu Electricity Board say that they will not stop this year. The wind season will start only from this month. But since last month also we are able to see an increase in the power generation compared to the previous month. So we hope that this year there will be a better evacuation. But still we are not fully sure because the new government has to come and how they will take steps. But one thing looks positive that some better evacuation will happen this year.

Sunil Kothari: Sir, last question is we are hoping not to having any major sales increase in yarn and fabric sales in the current year, right? We are expecting the similar volume, no growth?

P. Nataraj: Previously if you see continuously every two years we were expanding in yarn and fabrics and now in last two years we have decided to move towards value addition especially the garments. So consciously the board has taken the decision, because of that we have increased in the garment sector and not in yarn.

Sunil Kothari: Sir, what I am trying to understand is last year we sold around 78000 to 79000 tonnes of worth yarn and fabrics, so with increased utilisation of garments from 45 to 60 million shall we be able to sell in the outside market up to 78000 to 80000 tonnes worth yarn in fabric or it will be consumed more in-house only.

P. Nataraj: The in-house consumption will increase maybe 2000 to 3000 tonnes from the present level. Anyhow we will be selling outside.

Sunil Kothari: Sir, this size we can maintain?

P. Nataraj: Yes.

Sunil Kothari: Thank you Sir. Wish you good luck.

Moderator: Thank you. The next question is from the line of Dhaval Shah from Girik Capital. Please go ahead.

Dhaval Shah: Sir, our current long-term debt you mentioned is 273, is it?

P. Nataraj: Correct Sir.

- Dhaval Shah:** What is the working capital?
- P. Nataraj:** Presently our working capital limit is 580 Crores.
- Dhaval Shah:** Now out of this 273 you will be paying off 100 Crores?
- P. Nataraj:** Yes, 100 Crores will be paid.
- Dhaval Shah:** Sir, now you mentioned the working capital debtor days are higher in garment, so what about the inventory. How will our balance sheet look in terms of when we say in FY2017-2018 as we increase the share of garment how will our inventory days and debtor days will increase?
- P. Nataraj:** Sir, actually inventory days will not increase. We are having a policy of keeping one weeks stock for yarn and fabric. We are having order to order basis productions for garments. There will not be much of an inventory. Whatever inventory we have it is waiting for the balance production. It is about 100 days for garments. As far as yarn is concerned, it averages 45 days. Again financing for the export debtor will be much cheaper because the rate of interest will be very less. We have a 3% interest subvention for the export credit. Actually we are taking forward covers for the realization. At net level, we are not paying any interest because forward cover we get a premium of about 6% to 7% whereas interest whatever we are paying is around 7%.
- Dhaval Shah:** Sir, now what is the next plan in terms of expanding on the garment, so FY2017 we should be 60% to 65% of the total capacity you said 12 million you will utilise out of this 36 and the other previous capacity, but for FY any plans ahead?
- P. Nataraj:** You see that last year we have commissioned 12 million capacities, Greenfield, and comparatively the size is small. We have commissioned last week 36 million capacity, which is large size. We can say that factory alone is one of the largest manufacturing centers in the country at one place and we are going for expansion in the processing and printing embroidery facility also, so that we would like to ramp up properly and after that we will think of that. So once at least 50% capacity comes into full operation then we will think of that, because it is not like spinning. When you see the garmenting and processing the project once we start the investment and we know the execution of the project is a shorter time. So even after six months we plan and before reaching the full capacity we can go for another capacity also. So we would like our concentration is on the training of people, execution of the orders, looking for the new customers, and for the expansion of the processing. The management is fully engaged in these things.

- Dhaval Shah:** Currently how much do we pay on an average to our worker in a garment factory?
- P. Nataraj:** It is around Rs.12000.
- Dhaval Shah:** What is the similar rate in China would be?
- P. Nataraj:** China will be at least some three times.
- Dhaval Shah:** And Bangladesh?
- P. Nataraj:** Bangladesh will be almost the same or may be a little 5% less.
- Dhaval Shah:** But efficiencies are higher in Bangladesh is not it?
- P. Nataraj:** Even India is much better than Bangladesh.
- Dhaval Shah:** So we are in knitted, so Bangladesh is more for bottoms, right?
- P. Nataraj:** Both woven and knitted both are there, but more of woven in Bangladesh.
- Dhaval Shah:** Because our European FTA is nowhere on the cards for us so is the company evaluating, setting up factory anywhere where we have zero duty access to European countries?
- P. Nataraj:** When we had studied the countries, even in the last call also I told comparatively India is more safe and better place. Ethiopian ambassador has visited here and he has given assurance for safety. Group of members from the Textile Association are planning to visit to Ethiopia and based on that if anything is really better without any risk so we can think of Ethiopia, but as on today there is no concrete plan on this.
- Dhaval Shah:** Sir, when you negotiate with your clients, which are the competing countries you have and how many players from Indian also?
- P. Nataraj:** Presently, the competing country we can say Bangladesh.
- Dhaval Shah:** China is not at all there?
- P. Nataraj:** China is not at all now.
- Dhaval Shah:** Indonesia, Cambodia?

- P. Nataraj:** We are getting lot of news in media but still it will take some time we are not facing any physical impact. Only Bangladesh is the competing country as on today.
- Dhaval Shah:** Thank you.
- Moderator:** Thank you. The next question is from the line of Avinash Agarwal from Sundaram Mutual Fund. Please go ahead.
- Avinash Agarwal:** Good evening Sir. Sir, wanted to understand this 52000 tonnes of sugar that we have in our inventory at what price have we valued it?
- Murugappan:** It is valued at Rs.25.
- Avinash Agarwal:** Is this the end season inventory, Sir? Would we produce something after this also?
- P. Nataraj:** It is end season inventory.
- Avinash Agarwal:** Secondly on the power side, did we have to incur any additional cost this quarter due to this evacuation issues?
- P. Nataraj:** This quarter is expected to be lower, because the evacuation is expected to be better.
- Avinash Agarwal:** In Q1 Sir?
- P. Nataraj:** In Q1.
- Avinash Agarwal:** In Q4 did we have to incur any additional costs due to this?
- P. Nataraj:** Q4 generally off season Sir. The cost is more or less on line. There is no additional costs.
- Avinash Agarwal:** Even if we are not able to evacuate we get the same sort of cost in Tamil Nadu?
- P. Nataraj:** It is off-season. Wind generation is very less.
- Avinash Agarwal:** I was talking about evacuation from Karnataka from the Co-gen plant that we have there?
- P. Nataraj:** What we have done in Co-gen plant is something different. The Karnataka is facing a huge power problem so the government is ready to buy the power at a higher rate and the power in Tamil Nadu is available at a lower rate. So even though we have a medium-term

agreement with the government what we have done is we have sold the power in Karnataka and brought it in Tamil Nadu. We had an arbitrage in price.

- Avinash Agarwal:** So, Q1 is where we will have evacuation issues due to the wind power in Tamil Nadu?
- P. Nataraj:** We are not expecting a very big issue in Tamil Nadu in Q1. I hope the evacuation will be better.
- Avinash Agarwal:** Thank you and all the best.
- Moderator:** Thank you. The next question is from the line of Nirav Savai from ICICI Securities. Please go ahead.
- Nirav Savai:** Sir, is there any plans of KPR going debt free at net level by FY2018 or FY2019?
- P. Nataraj:** We have an internal target of reaching debt free entity in a period of three years.
- Nirav Savai:** So you mean by FY2019, FY2020, because in one of the concalls previously you had said that it will be by FY2018, KPR would go debt free?
- P. Nataraj:** 2018-2019 is the estimate.
- Nirav Savai:** By FY2018 or 2019, and also just wanted to understand your garmenting business better because how much time generally it takes from getting an order, executing it and delivering it. So what is the time lag generally?
- P. Nataraj:** It will be around 75 days. It depends on the style. Some times it may be a very simple style, it is still quicker, it is 60 days and sometimes maybe we can say 60 to 80 days and average it will be 75 days.
- Nirav Savai:** So within that timeframe the cotton prices do fluctuate. Does it matter to you in terms of changing in pricing?
- P. Nataraj:** Normally we will have a stock of cotton for three to four months maximum. Stock in hand will give us some better advantage, during fluctuation
- Nirav Savai:** So in case of cotton prices go down, you mean the realizations would decline. Let us say for your export orders, which are already in progress.
- P. Nataraj:** That is not. Generally the order value agreed will be executed.

- Nirav Savai:** So it does not change.
- P. Nataraj:** It does not change.
- Moderator:** Thank you. The next question is from the line of Harshal Shah from Anvil Research. Please go ahead.
- Harshal Shah:** Sir my questions have been answered. Thank you.
- Moderator:** Thank you. The next question is from the line of Kashyap Jhaveri from Capital 72 Advisors. Please go ahead.
- Kashyap Jhaveri:** Thank you for another opportunity. The sugar stock number you said is about 52000 tonnes. That is the number you mentioned?
- P. Nataraj:** Yes, 52000.
- Kashyap Jhaveri:** This year how long was the crushing season? How many days were there?
- P. Nataraj:** We did about 90 days.
- Kashyap Jhaveri:** Thank you.
- Moderator:** Thank you. The next question is from the line of N Samraj from Dwarka Wealth Managers. Please go ahead.
- N Samraj:** Good afternoon. Sir, what magic did you do at the factory? We were supposed to get as per our conservative estimate of around 41.1 million but you managed 45.5 million? 50% more and one more thing is just continuing when you were talking about, when the CFO was talking about the percentage utilisation maximum was around 77, 75 is the average and you seem to have hit that also because if you say 45.5 on 59 million you have hit easily 77%. So what magic did you do over there and then therefore how quickly will we be ramping up our Thekkalur II because that really adds to the excel sheet projections now, it is very exciting.
- P. Nataraj:** Thank you very much. In fact, the advantage of what we are having, we told that our HR system is one of the best in the country and we have various facilities. I think when you visited our facility, you have seen the people. We have given higher education and yoga and meditation and with all these kind of things, we are ensuring that people are happy in workplace. First thing is that they are physically and mentally very comfortable and happy.

That is one thing. We know happy people always do better. Also we are planning in the same way for 36 million capacity we have recruited a reasonable size of people. They are already getting training in the existing factories, so that we are able to shorten the time of training. The people get trained for two months. we are trying to reduce the training days as 40 days, 45 days like that. This way we would like to train. Because already invested, every day we have to pay the interest. we also calculate on this, So we are trying to commence at the quickest possible. That is the reason. One of our friend has asked about the new expansion. We are fully focusing on the larger factory. Our focus is only to utilise the capacity before going into the second project. So once we reach certain level where we get the confidence we give our attention to other side with respect to the other factories so that this will continue without any hindrance. Thanks for your compliment and this is our dedication and our experience only makes to achieve this.

N Samraj: We never doubted KPR's execution.

P. Nataraj: Thank you Sir.

N Samraj: Are you also getting a higher pool of trained people after the skilled manpower program which is going on from IT institute and all, are you getting a higher pool of skilled people also now?

P. Nataraj: We are getting higher pool. Thanks to the new government as the new scheme has come. Already in our factory, 3000 people have benefited on this and the system also is continuing.

N Samraj: Now from the CFO side going a little bit deviations from the mean sigma we are getting around 11 Crores on the other income. So how sustainable is that going forward, the other income 11 Crores?

Murugappan: On the standalone, other income is the dividend from the subsidiary company.

N Samraj: I see dividend from the subsidiary companies.

Murugappan: It will happen every year.

N Samraj: It will happen every year, so we can go along with this 11 Crores sustainable and perhaps with the increase with the ramp up with the governments and all that also we could possibly continue and get a higher other income going forward?

Murugappan: Yes.

- N Samraj:** Sir, as this question has already been discussed, we were doing a basic calculation 23088 is the tonnes for yarn and fabric manufactured this quarter because we have done this net sales figure, in tonnes, 23088 for yarn and fabric. Added to that say we have done about 14 million on the garments so you had approximately 2189. So we are already at 25277 net consumption of cotton yarn, going annualized and then taking into consideration another 16 million which will be coming in tranches, we have said by FY2016 we will be ramping up to 16 million, so we must be already hitting the 90000 metric tonnes yarn capacity constraints now?
- P. Nataraj:** Sir, we have reached a production of about 80000 tonnes.
- N Samraj:** 80000 tonnes net of this one, so we still have slack of 10000 is it?
- P. Nataraj:** Yes, 81000 tonnes we already reached. Again the production is depending upon the pattern if we improve the count, it will come down. If we reduce the count, it will go up. It is depending upon the market requirement.
- N Samraj:** So what you are saying is that we are good for the next, around that 27 to 28 million, which are supposed to come from the Thekkalur II, we are okay for that. There is not going to be any problems.
- P. Nataraj:** There is not going to be any issues Sir.
- N Samraj:** There would not be any issues. Sir, I just wanted to ask, Mr. Nataraj what is the progress on the textile policy, which was due, I mean it is still in draft stage, it was due in this session and also the EU FDA Pac anything you have heard from the government, because you are the Vice President of SIMA, so I just wanted to ask you.
- P. Nataraj:** I am the Deputy Chairman of the South Indian Mills Association. One month back also the textile union minister visited here. we also had a very close discussion and he was there for three days. Even the Commerce Minister also visited and we have given agenda to all the ministers and they are all very positive. They have given assurance, whatever is best possible they will do like that. In the meantime, about the FTA also, the various association not only spinning mill, the garment, the Tirupur Export Association CITI (Confederation Of Indian Textile Industry) are also closely working on this. All the people given lot of pressure for FTA, but FTA is not only for textile. Various other sector also there. Very serious discussion is going on. It is not the first time in the last three years these things are going on. We are very eagerly waiting for some positive decision from the government on this issue and if FTA comes then it will be a very big boom for the textile industry.

- N Samraj:** Because there was one report, I think done by Mr. Sakthivel where he was saying that in the next three years this FTA comes then we could not have any capacity we have to double this whole thing.
- P. Nataraj:** Yes. In Tirupur the largest hub for knitware, in the last three years almost the growth was 20% every year. And last year was around 22000 Crores, and as you said Saktivel has promised that once FTA comes within three years we will reach 100000 Crores. Almost four fold. Actually this is possible. Only capacity is the thing and that is why everyone is waiting for the FTA and we hope that the government or Prime Minister is very aggressively looking for export. So we hope something will happen drastically.
- N Samraj:** Any time period where you expect this?
- P. Nataraj:** we cannot give specific time. But there were various discussion and meetings are going on.
- N Samraj:** Textile policy could go through this monsoon session, I mean this extended budget session? Can it go through?
- P. Nataraj:** We hope. Textile policy is coming and they have announced in the Parliament. It is not an issue at all, but only FTA is the major thing.
- N Samraj:** But even then so from the textile policy also could we have some EPS accretion once that comes through according to your experience, yours and CFO experience, can we get something out of that?
- P. Nataraj:** In Textile policy there are certain things like MEIS like licensing for new countries or new products. These kind of things they announce in the policy.
- N Samraj:** Sir last one this SP Apparels, Coimbatore will be coming shortly, I think the SEBI approval is already given to the Red Herring. Going by it 90% of the model of course they are we are just basically calculated that when the new issue comes it will be at a P upon 35, I mean we are very, very undervalued as per that is concerned, but in the Red Herring you know they are giving the number of sewing machines, so when are going to fully go for this capacity utilisation of 95 million what will be the total number of sewing machines in operations Sir. If you could give us the machine sewing numbers, we can do a mirror comparison with SP Apparel?
- P. Nataraj:** In KPR you are asking?

- N Samraj:** KPR what will be the ramped up sewing machines operational when we are going to get that 95 million capacity?
- P. Nataraj:** It will be around 5500 machines.
- N Samraj:** 5500 machines would be operational for 95 million capacity?
- P. Nataraj:** Yes.
- N Samraj:** With the return on equity and all coming through we are crossing 290 now, book value possibly will be going for about 350 by FY2017. So are we going to get that Diwali bonus? Is it possible? You got to seriously consider that.
- P. Nataraj:** your suggestion will definitely be taken to the board and let the board decide on that.
- N Samraj:** Last debatable point I know you will have some bone of contention there but if you see the last quarter, quarter-on-quarter 2.38 Crores for others mainly contributed by Janvi Motors, now we are coming down to 0.06. Of course we do not have the exact capital employed and all for Janvi Motors but back of the envelope it is seriously diluting the financials of this value additions. So how much you are striving over there. We are actually losing on this. So is it not possible that at least we could consider hiving off Janvi Motors as a Professor or visiting faculty member and associate of MBA department, I mean we keep doing this case study. It is a very apparent thing which sort of shows up that. So that is why we were putting it up to you, Sir humbly.
- P. Nataraj:** Sir, it is one of our policy call. Generally it is discussed only in the board. We will take up the matter with the board. As it is Janvi Motors, whatever investment we have made we are getting a very good return.
- N Samraj:** But this quarter we have dropped, if you see 2.38 coming down to 0.06, I mean seriously there is a drop in financials?
- P. Nataraj:** Anyhow Sir, these two points, what you have suggested we will take into the board.
- N Samraj:** Because it really shows up on the P&L balance sheet.
- P. Nataraj:** Thank you.
- N Samraj:** Thank you. All the best Sir.

Moderator: Thank you. That was the last question. I now hand this conference to Ms. Perna Jhunjhunwala for closing comments.

Perna Jhunjhunwala: Thank you, participants for a very healthy participation. We would like to thank the management to provide with this opportunity to host the conference call and sharing their time and information with us. I would now like the management to share their closing comments. Thank you and over to you Sir!

P. Nataraj: First of all I thank every participants who have taken interest on KPR. On behalf of management, I can assure that Cotton scenario looks better and yarn also already has started moving upwards. So the yarn and fabric segment definitely will do well this year and in garment also the order book is very good and they are ramped up. The first 12 million garment unit is over and we are fully giving attention to the new unit of 36 million garments and we will definitely achieve as per as our plan which will be added with value additions by end of this year. By adding the processing and the printing capacity, which will be commissioned in six months time and adding to this even sugar also doing better. Overall we are confident that this year will be far better and we can perform overall in the numbers. We can assure and we will try to do our level best to make all the stakeholders happy.

Moderator: Thank you very much. Ladies and gentlemen on behalf of Batlivala & Karani Securities that concludes this conference. Thank you for joining us. You may now disconnect your lines.