"Nandan Denim Limited Q3 FY 2016 Results Earnings Conference Call"

February 12, 2016

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Q3 & 9M FY16 Results Conference Call
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Moderator: Good Evening, Ladies and Gentlemen. I am Ali, moderator for this conference. Welcome to the third quarter & First 9 Months FY16 Results Conference Call of Nandan Denim Limited organized by Dickenson Seagull IR. At this moment, all participants' lines are in listen-only mode. Later we will conduct a question and answer session. At that time if you have a question please press * and 1 on your touchtone keypad. Please note this conference is being recorded. I would now like to hand over the floor to Mr. Mandar Kapse. Over to you sir.

Mandar Kapse: Hello! Good Afternoon, Everyone. On behalf of Dickenson Seagull IR, let me welcome you all to the earnings call of Nandan Denim Limited for the Q3 & First 9 Months FY16. Today, we have with us from the management Mr. Govind Sharda -- President.

Before we get started I would like to remind you all that our remarks today might include forward-looking statements and actual results might differ materially from those contemplated by these statements. Any forward-looking statements that we make on this call are based on our assumptions as of today and we undertake no obligation to update these statements as a result of new information or future events.

Without further ado I would now like to hand over the call to Mr. Govind Sharda to make his opening remarks. Thank you and over to you sir.

Govind Sharda: A Very Warm Welcome to Everyone present here for the Earnings Calls for Nandan Denim for the third quarter and the first 9 Months of the FY2015-16.

Coming to our performance for the quarter, we continue to witness growth in revenues and profitability backed by healthy demand in Domestic Denim business. Our Domestic Denim business grew on the back of higher volumes and improved realizations. We continue to shift our product mix more in favor of the value added products. While we did well on the Domestic Denim front, the export market remain subdued, we also witnessed slightly weaker Shirting demand.

The total revenues for the Q3 of FY16 grew by 3.5% year-on-year to Rs.2874 million. Higher gross margin coupled with efficient cost control resulted in 10.1% year-on-year growth in EBITDA to Rs.418 million and 23.8% Y-o-Y growth in PAT to Rs.156 million.

On the margins front, EBITDA margins expanded by 100 bps to 16.7% and PAT margin expanded by 96 bps to 5.4% for the Q3. The total revenue for 9-months grew by 5.4% Y-o-Y to Rs.8,624 million. Efficient cost control resulted in 12.6% Y-o-Y growth in EBITDA to Rs.1,440 million and 30% Y-o-Y growth in PAT to Rs.468 million. On the margin front, EBITDA margin expanded by 107 bps to 16.7% and PAT margin expanded by 101 bps to 5.4% for the 9 months. Incidentally, the EBITDA margin and PAT margin are at the same level in the quarter and for the period of 9 months. Cash profit after tax was at Rs.323 million for the quarter, 16% higher as compared to the corresponding quarter previous year**.** Cash PAT for the 9 months is at Rs.968 million, up by 18% as compared to corresponding 9-months previous year where the score was Rs.819 million.

During the quarter that is the beginning of the cotton crop season, the prices of Cotton were volatile partially in view of the reduced crop size reported for the Indian Agriculture sector and uncertain demand from the importing nations. During the volatility, it becomes a challenge to decide about the Cotton stocking policy and therefore the advantage availed by the company in the previous quarter were restricted and has impacted the raw material cost as percentage to the revenue. However, the prices are now reasonably stable or say range bound to take prudent stocking decision.

Demand for Denim in the Domestic market was in line with our expectation; however, the export market had a pinch and therefore offtakes in the segment were impacted. During the 9 months period, exports comprised of 13% of the total revenue in order to cater to the domestic denim demand, a part of the Grey Shirting capacities were diverted to Denim manufacturing that led to reduced offtake of the Shirting product which comprised of 6% of the total revenues during the 9-months period.

Overall, sequentially Denim segment in value terms was marginally higher by 1.4%, whereas Shirting business had its own challenges.

The Board of Directors has also recommended an interim dividend of 8% for the current financial year.

During the quarter, pursuant to the shareholder’s approval in the AGM and in-principle approval from the BSE and NSE and application money being 25% of the total consideration has been received from Polus Global Fund was 25 lakhs fully convertible warrant issue. We shall entertain the warrant holders to have equivalent number of equity share of Rs.10 face value.

As you may be aware we are in the middle of our capacity expansion plan of Rs.612 crores, which is funded by 70% debt and 30% equity. To give you an update on the expansion, we have completed installation of the Shirting’s facility of 10 million meters. The processing facility is under erection and we have installed Denim manufacturing capacity of 99 million per meter and the spinning capacity stands at 70 tonnes per day as of 31st December 2015. The current debt-equity ratio is around 1.7 but over the period it could increase as we progress on the CAPEX plan.

Going forward we intend to further improve our operating margins as we reap the benefits of backward integration coming in post the completion of our expansion plan. We are well on track with our clear focus on the value added segment. For the next 3 years, we plan to have a significant part of revenue is coming from the value added segment. This would further enhance our margin profiles as well as the return ratio profile.

With this I would now like to hand over to the participants for the QA session. Thank you all.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin with the Question and Answer Session. We will take the first question from the line of Abhilasha Satale from First Global. Please go ahead.

Abhilasha Satale: Sir in this top line growth of 4%, I would like to know that how much is volume growth and how much is driven through realization or have we seen realization going down year-on-year?

Govind Sharda: When we look at the Denim volume, the Denim volume has grown by around 3.5% and selling prices has grown by around 8%, taking the total turnover of Denim up by almost (+11%). In the Shirting business the volumes have shrunk because we diverted some of our existing Shirting capacity to meet the Denim demand. Going forward we are very optimistic because India is still at the point where the Denim demand is yet to go up. We look forward for a better future.

Abhilasha Satale: Sir, how much Shirting volumes have gone down?

Govind Sharda: For Shirting volumes, the base number is pretty small. So therefore in the percentage terms this will become very large number, there is almost 60% reduction, but we need to look at this point that the Shirting capacities are nearly 10 million meters a year. The base figure is pretty small and therefore there is a significant shrinkage because those capacities had been diverted to Denim.

Abhilasha Satale: Once we ahead like way forward whether you will continue to divert your Shirting capacity towards Denim and can that be a reason for quarter-on-quarter margin dip, marginally has that also contributed towards it?

Govind Sharda: Not really. In the Shirting business we are yet to install the processing machines. Unless we install the processing machines the value addition in the Shirting business does not happen and therefore we are forced to sell the Grey Fabric. Grey Fabric is really not a very remunerative business, right now I do not have a very specific number but as of now the Denim business is subsidizing the Shirting business. That is to say the margin in the Shirting business are not as lucrative as they are in the Denim business. Therefore the margins are not dipping; if you really look at the EBITDA margins, our EBITDA margins has grown up.

Abhilasha Satale: Sir that is year-on-year it has grown up but quarter-on-quarter we have seen a marginal dip. So I was just wondering whether we have diverted more towards Shirting. By when your processing capacity will get stabilized and when can we see Shirting business picking up?

Govind Sharda: I guess it could be somewhere in June 2016 that we would be up with our processing capacity. As to answer your question about EBITDA margin dipping, this is a period when the crop season of cotton starts and in the beginning of the crop season the prices are always volatile. So you take certain decisions about stocking which over the period of time, till the market reach to stabilization phase, you always are inventing a new pricing. So, first quarter of the crop season is generally a bit of challenge for the Cotton-based producers. We are not an exception to that particular part because market has started with a very steady note, it increased, then it started going down, now it has reasonably stabilized and now all the USPA reports which have been released so far, they also indicate that India will end up with a decent stock of Cotton. So we are pretty confident now that the prices are stable and the volatility or the speculative nature in the event of cotton prices or the cotton markets would be missing now for the next 6-8 months.

Abhilasha Satale: Sir, in this FY17, how much can we see volume in Denim business and Shirting capacity utilization?

Govind Sharda: Second half of FY17 we expect to have our expansion completed, so we could be hitting in the second half for capacity of 110 million meters for the expansion that is under way and by the time because the processing capacities for the Shirting would have also been in place, so the entire 10 million meters would be operational. Let us hope that generally in the weaving based or the processing based industry, the ideal capacity utilization is around 80%-85% as compared to the installed capacity and since both the businesses are very well understood by us, so we should be able to do better when compared to the industry averages.

Abhilasha Satale: What is your Spinning capacity as of now and how do you see ramping that going ahead?

Govind Sharda: Right now, we are having installed capacity of around 70 tonnes per day. We intend to take our spinning capacity to 124 tonnes a day. We are at a very advanced stage and we expect the machine delivery to start towards the end of March and beginning of April. So I think during the first quarter of the next fiscal we would be adding significant capacities on the Spinning front.

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Abhilasha Satale: Sir how do you see your margins stabilizing after that? Your raw material cost also for this season and once your backward integration is geared up, how do you see your margins at?

Govind Sharda: Currently if I really look at the financial results of other spinners, typically, they make a margin of around 8%-10%. Once we have the backward integration, I guess that 8%-10% all around 50% of our requirement which we are right now outsourcing, that would be captured within the house. So we are looking at an appreciation of around 4%-5% when it comes to our EBITDA margin.

Abhilasha Satale: About your CAPEX overall, like how much have you spent in FY16 on Denim and Shirting capacity ramp up and how much is likely to be in FY17 on Spinning and other facilities?

Govind Sharda: Abhilasha, your question is slightly tricky and I can give you the overall number against the CAPEX of Rs.612 crores that we have planned, we already have cash outlflow of Rs.400 crores so far. I am sorry I do not have the data of break-up of spinning and processing and denim capacities separately available right now and for the balance amount we have already opened the Letter of Credit or we have already issued the Bank Guarantees as per agreed terms with the vendor. Once the machines are shipped it is only a matter of time that in next say 4-5 months, we will end up spending almost Rs 200 crores towards this CAPEX plan.

Abhilasha Satale: So is it fair to assume that you will be capitalizing Rs.400 crores during FY16?

Govind Sharda: If you consider capital work-in-progress as well as the part of the capitalization, yes, we would be because there would still be many things which would be capital work-in-progress but this FY16 figure of Rs.400 crore has not entirely been capitalized in FY16 as part of the CAPEX had already been incurred in the previous fiscal as well.

Abhilasha Satale: Sir, then what is your gross debt and how much is term loan and working capital in that?

Govind Sharda: As on 31st December we had total debt of close to almost Rs.450 crores, of which the term loan was close to Rs.320 crores and balance was working capital loan.

Abhilasha Satale: Sir if you could also tell me what is cost of debt for term loan? I know for term loan like you have state as well as TUF benefits.

Govind Sharda: The term loan is available to us from the bank at their base rate plus 100-150 bps from different banks and the working capital loans are available with the same spread of 100-150 bps to their base rate.

Abhilasha Satale: But sir here you also have his TUF as well as the state benefits incentives. So excluding that what will be your cost?

Govind Sharda: If I consider the total impact, the subsidy available under the state and central TUF will be close to 10%. So effectively the borrowing cost post commissioning of the project would be in the range of 1%-2% as far as the new loans are concerned. For the old carry forward loans which could be repaid over the period of next 2 years' time, the existing borrowing cost would be around 6%-7%. Yes, on the working capital there are no subsidies available, so working capital would be available typically at 12%.

Abhilasha Satale: Sir how are repayment schedule if I could also get in FY16 and FY17?

Govind Sharda: The annual repayment would be close to Rs.55-60 crores.

Moderator: Thank you. We will take the next question from the line of Resha Haria from GreenEdge Wealth Services. Please go ahead.

Resha Haria: Sir, what is your understanding on the demand side if you could give some color on how is the industry flowing and how do you see the demand picking up because I understand that if you had to divert your Shirting capacity to Denim manufacturing, does that imply that we were constrained in terms of capacity for Denim manufacturing?

Govind Sharda: The Indian Domestic demand for Denim has been growing historically anywhere between 15%-18% when I look at the CAGR. So there is enough demand for the Denim. As far as our decision to divert the Shirting capacity to Denim is concerned that is basically governed by two facts in the Shirting business because we do not have the processing facility right now at our disposal. So it is really not remunerative for us to deploy that capacity. Therefore, it is making all the more commercial and prudential sense to divert some capacities towards Denim manufacturing since we have the flexibility on that particular part. Shirting business has been suffering for last 6-months or so. But we consider it as a temporary phase and over the period of time Shirting business will also bounce back. Denim, of course, has been exploding. So we expect Denim demand to continue and there could be enough room for future growth if I believe on the statistics number, typically India needs to double up its manufacturing capacities over the period of next 2-3 years.

Resha Haria: From FY13 to FY15, Nandan has grown at around (+20%) on the top line, whereas some of our listed players they have grown at less than 9%. So if you could just highlight that what exactly would you attribute to the fact that we were able to grow so well versus the other peers? Now if I look at the last two quarters, for our listed peers they have grown at around 14%-15% whereas we are at around 10%-11% for Denim. So if you could just highlight that what is the reason for such stupendous growth from FY13-FY15 and right now we are sort of slowing down versus our peers. So if you could just give some insight on that?

Govind Sharda: The reason let me explain you firstly about the negative observation in your statement. The last two quarters we have not grown in line with the industry expectation is because there has not been any addition in the manufacturing capacity. If we do not add the capacity then definitely your growth is going to be restricted to the existing volume and you can grow in the top line only by moving up the value chain that is by way of value added products. That is an endless journey and we have just started it almost a year back. So we are moving up in that value chain. But it will take some time before we can really reach a significant size. For the same reason in the yester years we have grown over the industry average because we have added capacity and we have not confined our product lines to any particular segment. We have been growing in all the segments, so we are not present only in the niche segment, we are not present only in the mass market but we are continuously optimizing our product mix and those optimization process are paying their dividend by way of increased top line and increased bottom line as well.

Resha Haria: For the 9-months FY16, what would be our revenue split between Denims and Shirting?

Govind Sharda: Denim is almost 94%-95% of the total top line and balance is accounted by the Shirting business.

Resha Haria: Denims again for 9 months, what is the share of value added Denims in the overall Denims revenue?

Govind Sharda: The value addition is a very temporary phenomena and normally it is a fashion front runner. So a product which is a value added segment right now becomes a very normal type of products two months down the line and 6 months down the line it becomes a commoditized product. So definitely capturing a share of the value added product is a challenge in itself because it is the same product which is being sold. But, as of now, if I have to give a ball park number then I think we are able to get around 10% of our revenue pie from the value added products

Resha Haria: Have you looked at any sort of brand tie-ups directly like if we could sell directly to these branded retail companies? If in case you do not have a brand tie up and if we manage to get one, then how does that impact our realizations or our margins or our working capital requirements?

Govind Sharda: Technically, it is known as nominated business from the brand. We are in the process of getting some nomination, but it is a very time consuming process and typical time taken by any manufacturer to get the nomination from the good brand could be anywhere between 2-3 years time. We are already in the process at an advanced stage with 2-3 brands. Therefore, we are expecting that, we could be beginning on the nomination business very shortly. But that is our perception, but all these brands have their own stringent norms. So let us see how they progress but yes, that is an item on our agenda and we are seriously working on it.

Resha Haria: In case we do not manage to have this tie-up then how does that affect our realizations, do we see an increase in our realizations, average selling price and how does that impact our working capital also?

Govind Sharda: Working with brands actually will not impact the working capital margin, but yes, it does impact the profitability margin. Profitability margin can be enhanced by association with the brand by establishing a close tie up and having a nomination with us. Right now we are not into that business. So it is difficult for me to assign any particular number as to how much will be the margin, but going by a layman's approach I think the EBITDA margin could increase by at least 200-300 bps because of the nomination business for the segment.

Resha Haria: Post this increased capacity in both Denim as well as Shirting, will we see significant jump in our employees?

Govind Sharda: Not really, there would definitely be some addition to the manpower that we deploy but because there is a distinct advantage available with Nandan, our technology is state-of-the-art that is latest available in the market. So definitely if I compare with any of the old timers, yes, manpower deployment is significantly lower as compared to the old timers who have deployed the technology, because 10-years back, as the things which were not there or which were not even thought of, now they are the reality. So, we are definitely better placed, but, yes, since textile is relatively manpower intensive sector for every additional capacity, there would definitely be some additional manpower requirement.

Resha Haria: What would be your employee count as on 31st December?

Govind Sharda: I do not have the exact number but I think it should be close to 2500**.**

Resha Haria: What would be the tax rate that we can expect going forward?

Govind Sharda: It is going to be the normal taxation.

Resha Haria: What would be the depreciation cost for the next 2-3 years?

Govind Sharda: On SLM basis we are expecting that post capitalization our depreciation would be anywhere between Rs.90 to 100 crores per year.

Moderator: Thank you. We will take the next question from the line of Gaurav Punjabi from East India Securities. Please go ahead.

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Gaurav Punjabi: Sir, I am fairly new to the company. So I would like to understand a few basics. Sir, you have yarn capacity of I think 70 tonnes per day and this is increasing to 124 tonnes per day. So in terms of Spindles, how many Spindles do we have exactly?

Govind Sharda: In terms of Spindles we would be having I think close to 70,000 Spindles and it is close to 7000 Rotors.

Gaurav Punjabi: So is this a current Spindle capacity or is this an expected Spindle capacity?

Govind Sharda: It is the expected spinning capacity.

Gaurav Punjabi: What would be the current spindle capacity?

Govind Sharda: Current spinning capacity is around 3000 Rotors and close to 35,000 spindles**.**

Gaurav Punjabi: We have a CAPEX plan of 610 crores. So do we have a breakup on how much are we spending on each of the segments of the company like Spindles and…?

Govind Sharda: I think we will share with you the broader number, out of Rs. 610 odd, Rs.250 crores would go towards the spinning which is meant for our CAPEX consumption in Denim only. Around Rs.250 crores will go for the Denim capacity creation and around Rs.100-odd crores will go for creating the processing capacity.

Gaurav Punjabi: So of the Cotton requirement I understand 70% is actually I think got from Gujarat. What about the remaining 30% where do we source that from?

Govind Sharda: It is an open market; I can source it from Maharashtra, I can source it from Rajasthan, Punjab or even we can end up importing because 70% is an indicative number because it is always a commercial decision depending on the pricing parity we keep on taking a decision but generally at the year we ended with around 70% of Cotton source from Gujarat itself.

Gaurav Punjabi: So sir the entire Yarn which is made in-house that is used for Denims or do we sell Yarn in the open market as well?

Govind Sharda: I will say 99.9% is meant for the captive consumption, sometimes we end up manufacturing some **odd lots.** So, yes, we have to sell that Yarn but that is a very insignificant quantity.

Gaurav Punjabi: So do you buy any Yarn from outside for your Denims or is that fully met?

Govind Sharda: Our requirement of Yarn is close to 140-145 tonnes a day and current capacity is around 70. So I will say as of today we are sourcing almost 50% of our requirement from the other players.

Gaurav Punjabi: In your opening remark you said about the Cotton prices being volatile and I can see in your Q3 numbers that the cost of raw material I think that was about 66% and it basically increased by 300 basis points. So if I see last in December '14 quarter versus December '15 quarter, prices have fairly remained in the same range. So why have we seen the spike?

Govind Sharda: December 2014, if you really look at the number we were at around 68% and we are at around 67% in the current quarter. We have marginally declined our raw material cost, right? The remark was in context to the Q2 FY16 numbers which was for the September quarter. So that remark was definitely not with reference to the corresponding quarter because as compared to the corresponding quarter everything has improved. So idea was basically to share something there, company took certain decisions where we could have earned more, but, yes, that opportunity we could not capitalize.

Gaurav Punjabi: So what is the in-house like cotton because it is always a risk. So do we have any mitigation policy to minimize the risk on Cotton prices?

Govind Sharda: Any spike or any rally in the prices of Cotton is the pass-through when it comes to the Denim manufacturing. So we normally do not keep huge inventory of Cotton with us, keep it a bare minimum level and our location becomes an advantageous proposition because we are so close to the market. So even if we place an order in the morning at 8 O'clock by 2 O'clock we can get our cotton stock inside the plant. So we are geographically at an advantageous location. We always take a prudent view depending on the market place. If the market is going to start, yes, we may end up with around 2-3 months inventory, but under the normal stable environment we can go with around one month or one and a half month inventory.

Gaurav Punjabi: Sir what about this China situation that we have in our hand, so any outlook on that or what is your view because China has not been buying any Yarn, so probably all the yarn manufacturers are dumping a lot of yarn in the domestic markets, so you have any view on the prices of Yarn probably you could source the raw material cheaper if China continues to not buy Yarn from India?

Govind Sharda: I think the knowledge that you are sharing is whatever we have perception in the market, but if you really look at the history of the Textile industry, industry passes through the similar phases every fourth or fifth year and this is the stage where a boy is differentiated from a man, so a lot of consolidation takes place. We think the current softening of the prices of the Yarn is yes, impacted because of the sentiment attached to the Chinese exports, but they are fairly priced looking at the prices of Cotton. So we do not expect any major spike in Cotton and the Yarn prices as of now.

Gaurav Punjabi: Raw material prices would continue to be in the current range or probably a few…?

Govind Sharda: This is our perception as of today, but, yes, getting any reliable information from the Chinese market is by itself a major challenge. So we do not speculate on that part and normally we go with a very prudent policy where we secure our raw material according to the order book position that we have. Yes, our margins may not be comparable on those particular transactions with the industry averages, fortunately, always it has been positive in our favor, but we do not speculate on the raw material prices.

Gaurav Punjabi: What are the major three export destinations for our company because exports are anyway like not a major part of our total overall revenues but I think they make up about 10%?

Govind Sharda: For the Denim the major export destinations are the countries where you do not have a high level of industrialization, where Textile or the garmenting is the major industry. I do not have the current data of the industry, but last year's data which I gathered from Denim Manufacturers Association indicates that almost 3/4th of Indian exports of Denim are to Bangladesh and balance 25% goes to as many as 70 countries, but looking to the current trend, I think apart from Bangladesh, Southeast Asia and some of the African countries are the major target choice for Denim manufacturers.

Gaurav Punjabi: If I talk about our distribution in Export markets or Domestic markets, so do we have like any sales, how do we go about that, do we have agents doing that or do we have our in-house people across different cities selling our products?

Govind Sharda: Mostly for the Textile companies the entire sales takes place through the agent only. So we are no exception to that particular route. Most of the companies across the product segment are using only that as a route**.**

Moderator: Thank you. We will take the next question from the line of Rahul Agarwal from VEC Investments. Please go ahead.

Rahul Agarwal: Sir, good to see the realization improvement, but bit disappointed on the Q3 volume for Denim, I understand that Shirting volume has also shifted to Denim, but is there any specific reason comes to your mind for quarter-on-quarter slow growth in Denim volumes especially?

Govind Sharda: Not really, may be you missed on that particular part, Rahul. The volume has grown by around 3.5% or 4% when it comes to Denim and the realization has improved by 8%. During our discussion we shared with you that company has a strategic thought process, it is moving up in the value chain that is by way of those value added segments. When we talk about the value added segments, it is slightly technical; let me try to share a technical knowledge on that particular part; we do not consider meter as the utilization factor, it is the number of the picks which are inserted in the fabric. When we move up in the value added segment you are forced to reduce your production and there is always a tradeoff between the loss that we incur due to lower production and the benefit that you get by way of **higher pick** insertion. So over that particular part, yes, volume in meters is not the best indicator when it comes to the demand for the product or the utilization of the brand, but yes, number of picks which used to be close to 50-52, now the average of the industry is getting towards 56-58. So to that extent yes, the volume in meters has reduced, but of course in our case the volume has also gone up and the realization has also gone up because as we shared with you in the last conference calls as well, we do not want to be recognized as a volume player, we are looking at becoming one of the most profitable Denim players of the world. So we are targeting to get a larger share of our revenues coming in the value added segment and we are seriously pursuing this particular objective.

Rahul Agarwal: Exports seems to be weak which you also highlighted, but does that mean that increases domestic supplies and that is why steady state commodity type Denim fabric would have realization de-growth for the next 3-4 months because of exports being weak as an industry?

Govind Sharda: Exports I think there are some cascading effect of the slow-down which is coming from different parts of the world. So there is definitely an impact on the Export-centric business mix. When you have a growing demand within the Domestic market, we can always take it as a time being adjustment because we have to utilize our capacities, we have to force the value added products into the market; we have to have a better margin. So frankly speaking, just it is a business of the company to get a sizeable chunk of the revenue coming from the Export market, but we cannot be married to that idea permanently if the export market is not responding. So we are flexible on that particular part. We are also blessed with the distribution network across the globe. So it does not take too long a time for us to respond to the market requirement. So we are feeling that, yes, exports market may really not be very optimistic for another 2-3 months. Normally, if I really look at the historical data, whenever there is an outgoing US President Election the Export market really does not support, it is an 8-year cycle, incidentally, 8-years now for Barack Obama and before that Clinton and before that Bush, if you really turn the papers of the history that has been the trend in the stock market and that has been the trend in the industry as well. I will leave for you to revalidate because you are from the financial fraternity because this is what I have gathered that whenever every 8-years at least for the last 3 presidents who have survived in the chair for last 8 years this has been the trend.

Rahul Agarwal: Any interest being capitalized as of now or everything is into P&L?

Govind Sharda: Right now we are into the middle of the projects, so they are getting capitalized.

Rahul Agarwal: You said Rs.450 crores gross debt. Of that how much would we attribute to the new capacities?

Govind Sharda: It is close to Rs.250 crores.

Rahul Agarwal: So then in that case just wanted to clarify one thing, the earlier participant was also trying to ask the same question, if I remove that new debt which is Rs.250 crores from this and look at the P&L interest that looks quite high as a cost to be paid on debt. Is that understanding right or is there some other way to look at it?

Govind Sharda: May be Rahul, I can take this question offline with you?

Rahul Agarwal: Sure.

Moderator: Thank you. The next question is from the line of Resha Haria from GreenEdge Wealth Securities. Please go ahead.

Resha Haria: How many meters of Denim have we sold in the 9-months?

Govind Sharda: It is around 56.4 million meters.

Resha Haria: With the previous participant you just spoke about as we move towards more value added, probably your volumes may not grow as much, right? If I understand that is a little technical, but if you could just sort of just explain to us how would this exactly work?

Govind Sharda: The value addition can happen in two ways - one it could be by weaving and one it could be by way of the processing of the fabric. When it goes by the weaving the number of picks play and in that case volume may not grow because the weaving machine operates with pre-defined numbers of the RPM. Within that RPM whatever numbers of meters you want to produce you can produce. But when it comes to the value addition by way of the processing facilities they always operate with a meter per minute. In that case, the volume may not be impacted. So now depending upon what route is adopted for which particular SKU, the product meter volume may be impacted. So if I am taking a route of creating the value addition through the weaving route, in that case the meter volume may be impacted adversely, but when the value addition is happening through the processing route, the meter volume may not be impacted.

Resha Haria: So it would be more desirable to sort of do the value addition through the processing route, right?

Govind Sharda: Yes, as a manufacturer, we would be more inclined to go for value addition through the processing route.

Resha Haria: But obviously there would be some constraints in terms of doing it to processing routes, so like if we move more towards value added, what would sort of constrain us to move the entire value addition of Denim through processing?

Govind Sharda: It is a younger generation fabric, so it is difficult for me to predict anything but generally going by the experience of the Textile industry most of the times the value addition happens only at the processing stage. So there is fairly good chance, I would say 80% plus probability, is for the value addition through the processing route.

Resha Haria: How do you define a value added Denim? Those denims, which is the metric, would it be the average realization in rupees per meter or would it be some other metric?

Govind Sharda: It is a different metric actually. The value added fabric is a fabric which is not seen right now in vogue and we are the frontrunners to offer that particular product in the market. So it may be even Rs.100 meter fabric or it may be Rs.500 per meter fabric as well. So if it is something which is being thrown as a frontrunner into the Fashion segment then it is a value added fabric. The competition will catch up with our construction, our finishing, our designing of that particular fabric. So two months down the line it becomes a very normal product. As long as the product is value added or it has not been copied by the competition, we can always command the premium on that product. So instead of defining anything in terms of rupee per meter, we prefer to define whether we have competition in that particular SKU.

Moderator: Thank you. We will take the next question from the line of Ronit Ramesh from Vallum Capital. Please go ahead.

Ronit Ramesh: Can you give your outlook for Exports and can you give the breakup for Exports?

Govind Sharda: If I have to define the short term then yes, export market does not seem to be booming the way it used to boom, though the dollar is very supportive. As of now the Indian Export to Bangladesh as far as the Denim is concerned they are almost 75%. So the balance 25% is going to almost 70-countries and predominantly to the Southeastern Asian and African nations.

Moderator: Thank you. We will take the next question from the line of Puneet Nandwani who is an individual investor. Please go ahead.

Puneet Nandwani: My question is we saw almost a flattish quarter this time in December. What is your guidance for the last quarter of the year in terms of revenue and profits?

Govind Sharda: Puneet, this is the most difficult question to answer in any of the conference calls. I will give a very diplomat reply that we want to do better than what we have done.

Puneet Nandwani: But I see that last time whenever we met, you have been maintaining that Nandan Denim will grow in double-digits around 18%-20% year-on-year for next 3-4-years. Do you still maintain that outlook?

Govind Sharda: In the current fiscal since we are not adding any capacity, so it is difficult for us to maintain that particular growth rate. But yes, when we look at the next 3-4 years of horizon we intend to.

Moderator: Thank you. As there are no further questions in the queue, I now hand the conference over to Mr. Mandar Kapse for closing comments.

Mandar Kapse: Thanks, Ali. Thank you all for participating in the call. If there are any further queries, please get in touch with us. Our coordinates have been provided in the concall invite. Thanks every one for participating again. And have a good weekend.

Moderator: Ladies and gentlemen that concludes the conference. Thank you for joining us and you may now disconnect your lines.