



“Nandan Denim Limited Quarter 1 FY19 2018 Earnings  
Conference Call”

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**MANAGEMENT: MR. ASHOK BOTHRA – CHIEF FINANCIAL OFFICER,  
NANDAN DENIM LIMITED  
MS. PURVEE ROY – COMPANY SECRETARY**

**MODERATOR: MR. THOMAS V ABRAHAM – KARVY STOCK BROKING  
LIMITED**

**Moderator:** Ladies and Gentlemen, good day and welcome to the Quarter 1 FY19 Earnings Conference call of Nandan Denim Limited hosted by Karvy Stock broking Limited. As a reminder all participant lines will be in listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal operator by pressing ‘\*’ and ‘0’ on your touch tone phone. Please note, this conference is being recorded. I know hand the conference over to Mr. Thomas Abraham from Karvy Stock Broking Limited and over to you sir.

**Thomas Abraham:** Thank you Vikram. Good evening Ladies and Gentlemen. On behalf of Karvy Stock Broking Limited I welcome you all for the Quarter 1 FY19 Earnings Conference Call of Nandan Denim Limited. Today we have with us the senior Management of the company represented by Mr. Ashok Bothra – the Chief Financial Officer and Ms. Purvee Roy – the Company Secretary.

I now request Ms. Purvee Roy to give the opening remarks. Thank you and over to you madam.

**Purvee Roy:** Good evening Ladies and Gentlemen, greetings and a very warm welcome to everyone present here for the Earnings Call of Nandan Denim Limited to discuss the performance during the First Quarter of Financial Year 2018-19.

Nandan Denim Limited is following its well-defined charter of growth and we present here the performance so far. A disciplined approach in life with a long-term strategy would enable us to further cement our position in the industry. We are focusing on expanding our market reach and investing towards our manpower competence to build a brand that would be synonymous with consistent quality and timeliness of delivery.

Coming to our performance during the First Quarter of Financial Year 2019:

In the First Quarter of 2019, Nandan Denim was operating at 64% of its capacity utilization. This is in line with the industry capacity utilization of approximately 60%. During the first quarter, the company has sold 17.7 meter of denim fabric with blended realization of Rs. 123 per meter, and shirting fabric of 2.5 million meters with a realization of Rs. 117 per meter, increased by 4% from Rs. 112 per meter in corresponding quarter of previous year.

Our revenue from operations stood at Rs. 3571 million in Quarter 1 of FY19. The denim fabric sale for the first quarter stood at Rs. 2168 million. Shirting fabric sales increased by 42% Y-o-Y from 202 million in Quarter 1 of FY18 to Rs. 286 million in Quarter 1 of FY19. Our yarn and other sales for the Quarter 1 of FY19 stood at Rs. 1142 million. During first quarter our denim fabric and shirting fabric realization stood at Rs. 123 per meter and Rs. 117 per meter.

The company reported a gross profit of 1175 million in the first quarter of FY19. Gross margin improved by 124 basis points to 32.9% in Quarter 1 of FY 19 compared to 31.7% in Quarter 1 of FY18. Company reported EBITDA of 467 million, with a margin of 13.1% in Quarter 1 of

FY19. Company reported finance cost of 141 million in Quarter 1 of FY19 and we are awaiting the formal letter of sanction of subsidy from state government. Company reported a PAT of 52 million with a margin of 1.5%.

With this I would now like to hand over the call for question and answer session.

**Moderator:** Thank you very much mam. Ladies and Gentlemen, we will now begin the question and answer session. We have our first question from the line of Ojasvi Agarwal from India Capital, please go ahead.

**Ojasvi Agarwal:** I had a couple of questions. The first one I would like to begin with is what is the current capacity utilization right now?

**Ashok Bothra:** It's around anywhere between 65% to 70%.

**Ojasvi Agarwal:** Has that improved as compared to the first quarter? Are you seeing some better visibility in terms of revenue?

**Ashok Bothra:** If you compare with the capacity utilization of Q4 or Q3 of last year, it has certainly dropped by 5% to 10%. But we are hopeful of recovery in the market post-Diwali.

**Ojasvi Agarwal:** Not pre-Diwali sir, not during the festive season?

**Ashok Bothra:** No. Diwali is the main season. So, sales are happening, but if you see denim industry per se, if you recall long-term demand remains intact, as you must be aware that it is the versatile fabric which has got appeal among the youth apart from rising disposable income and untapped Tier-3 and Tier-4 cities and increasing proportion of the working woman. These are the green shoots available for the denim industry. Apart from that denim is available at various price points, say as low as Rs. 200, and as high as more than Rs. 20,000. So, if we see long-term demand remains intact. This is a temporary phenomenon mainly resulting from the regulatory disruption like GST and demonetization. Say all the sales were happening through banking channels and all but the last leg of the value chain in the denim industry comprising activities like stitching, washing, **(Inaudible)** and all, which is a very highly labor-intensive segment and they were mainly from the small-scale industry and they have yet to get fully acclimatized to the formal banking channel and GST. But there is a gradual recovery from them also. So, if you must have observed I mean from the data of the various denim players, sales outstanding has gone by 30 days. So, it is not neither, practical nor feasible to extend beyond a point otherwise in order to have a curtailed bad debt. So, because of that we have not extended any major higher DSO to all the dealers and all. So that's why we are not seeing higher sales. That is a conscious call taken by the management. But if you see our EBITDA margin or any other leverage ratio, like debt/equity or debt-to-EBITDA that is comparable with any player in the industry.

- Ojasvi Agarwal:** One thing more sir. The denim realization has gone down quite a bit to Rs. 123 per meters and yet the gross margins have improved. So, have the cotton prices softened that why the gross margin is better? Because you see that the realization has come down from Rs. 130-132 to Rs. 123 now.
- Ashok Bothra:** Cotton price moved. We used to stock around 45 to 75 days depending on the market views and availability of the funds. And prices have moved from Rs 42 to Rs. 48-49 again it is at 48,000 only so We mainly bought the stock at 42000 level only.
- Ojasvi Agarwal:** Okay you had it at a lower level that is why the gross margins improved?
- Ashok Bothra:** Yes.
- Ojasvi Agarwal:** Sir what about this quarter, is it going to be in the same line or is it going to go down from here?
- Ashok Bothra:** This quarter prices have jumped to 48000. So, that is to do with the other players also. So, we have no option but to increase the pricing.
- Ojasvi Agarwal:** You are saying that you can pass on the increase in cost?
- Ashok Bothra:** Due to not so high capacity utilization, we cannot pass on all the price increase, but slightly we have tried to pass on to our customers.
- Ojasvi Agarwal:** This is regarding the interest rate subsidy sir. You said that you are aviating the formal letter. So now what will be amount that you are going to receive as a backlog because there is interest subsidy will be...
- Ashok Bothra:** A committee has been formed for the sanctioning of the subsidy in the month of July. We re expecting the formal sanction letter of the same. So that is expected any time. Subsidy may be around 14 crores to 15 cores on annual basis. Power subsidy will be around 4 crores to 5 crores on an annual basis. And GST will be around 2.5% of the sales made in Gujarat.
- Ojasvi Agarwal:** Sir, interest subsidy will be from retrospective methods right. From the you started.
- Ashok Bothra:** All the benefits are with effect from 1<sup>ST</sup> January 2017. The recognition of subsidy is 27 months. So, in this year we will have apart from you know, current year subsidy recognition we have to recognize subsidy from 1<sup>st</sup> January 2017.
- Ojasvi Agarwal:** I will come back in the queue sir.
- Moderator:** Thank you. We have our next question from the line of Ashay Jain Individual investor. Please go ahead.

- Ashay Jain:** Hi, sir in the last call you mentioned that we are facing some liquidity issue. Sir how is the situation now. Are you seeing any improvement?
- Ashok Bothra:** Still this last leg of the industries is reeling, mainly due to GST and demonetization. So, debtors' level has not come down even as of now.
- Ashay Jain:** Coming to GST sir. Recently there was a news that input goods credit to fabric producers would be allowed. Could you throw some light on that?
- Ashok Bothra:** Circular you are talking about 26<sup>th</sup> July or 27<sup>th</sup> July, right?
- Ashay Jain:** Yes.
- Ashok Bothra:** In order to have refund for the fabric industry, all the accumulated balance as of 31<sup>st</sup> July needs to be reversed. Only then we have gone for the refund.
- Ashay Jain:** Sir, according to you, what is the price for cotton you are expecting over this fiscal year 2019.
- Ashok Bothra:** May be around annual between 42000 to 44000. We are talking about the new season.
- Moderator:** Thank you sir. We have the next question from the line of Ojasvi Agarwal from India Capital, please go ahead.
- Ojasvi Agarwal:** Sir I wanted to know what is the current debt levels?
- Ashok Bothra:** Long term debt as of 30<sup>th</sup> June is around Rs, 426 crores roughly.
- Ojasvi Agarwal:** and short-term?
- Ashok Bothra:** As of March 2018, debts where, long term debts were around 439 crore and as of 30<sup>th</sup> June it was around 426 crores. Our annual repayment is around 60 odd crores do debt has reduced by 15 crores approximately on a quarterly basis.
- Ojasvi Agarwal:** Has there been any increase in the short-term Debt levels?
- Ashok Bothra:** No. As of now no. Because working capital around 300 crores. But utilization has gone up to some extend but not at very alarming level.
- Ojasvi Agarwal:** Okay. And sir, can you give us the margin guidance for this year. I mean do you expect the margins to become better, since the capacity utilization would improve in the coming quarters, so what EBITDA margin are you expecting for this year?
- Ashok Bothra:** Can we give the forward-looking statement?

- Ojasvi Agarwal:** Just the guidance sir. I am not asking for a forward-looking statement.
- Ashok Bothra:** Yes, we are hopeful of the recovery in the market and denim being the most appealing fabric amongst the youth, so we are long term, we see it will remain intact. But this is temporary phenomenon resulting from GST and demonetization. Once the last leg of the value chain gets used to this, we will see recovery in the denim.
- Moderator:** Thank you. We have the next question from the line of Priyank Boricha from B & K Securities. Please go ahead.
- Priyank Boricha:** Sir, I joined late on the call so I don't know is this is asked or not. Sir my 2 questions was, our sales de-grew by ~16% Y-o-Y so what was the reason for that? And second, what is the Denim outlook?
- Ashok Bothra:** Our sale has dropped from around 440 crores to 360 crores. So that does not translate into 40% So sale of all the players have dropped basically. This is only due to GST and demonetization. We cannot expand beyond a point higher limit for our customer.
- Priyank Boricha:** and what is your outlook for denim in the coming quarter sir?
- Ashok Bothra:** Long term you know, we are quite optimistic.
- Priyank Boricha:** IS the demand coming back? Since the quantity is, the capacities have increased in the industry. So, if we see the other players, their utilization has also gone down., Since more capacities are going up their sales are going down. So, you feel it is going to be positive in the coming quarter also, that is in the next 12 months or so.
- Ashok Bothra:** If you see this Textile policy to expire September 2017, then it got extended further one year. Star being the leading producer of denim. So, most of the players expanded their capacity. So, there may be a temporary mismatch between the demand and supply portion. And the matter got worsened because of GST and demonetization. But if you see other micro level, indicators remain intact, like the increase in the population, the disposable income, etc. Other factor you know, I don't see any deterioration.
- Moderator:** Thank you. We have the next question from the line of Ashay Jain, individual investor please go ahead.
- Ashay Jain:** I Just wanted to know that are you expecting any change in the revenue mix during this year. I mean are you expecting any increase from the Denim portion?

- Ashok Bothra:** Last year I you see, for the last 2 years we were having our denim sales coming around 1000 crore. So, we will expect the same in this year also, but may be, there may be temporary hick ups.
- Moderator:** Thank you. We have the next question from the line of Puneet Nandwani, individual investor. Please go ahead.
- Puneet Nandwani:** Sir, how do you feel about your debt repayment schedule and comfort level in case of this down term of the cycle. So, this temporary situation may last for one year or 2 years. What is your view on this. Are you comfortable with the debt repayment schedule? I know it is 60 crores. Earlier. Do you foresee that we will be able to comfortably repay the debt?
- Ashok Bothra:** Okay well our debt repayment is around 60 crores ok. And our depreciation is itself around 120 crores on an annual basis. So, that is sufficient to take care of, if I do not incur any profit or loss, that will be sufficient, to take care of the debt repayment. Apart from that we will start subsidy will start flowing from Q2, Q3 onwards. That will add to the comfort level as far as debt repayment is concerned.
- Puneet Nandwani:** So we will be able to last tough cycle and will be back strongly once the demand kicks up.
- Ashok Bothra:** Ever one is waiting for the cycle to improve.
- Moderator:** Thank you. Since there are no further questions, I now hand the conference over to the management for their closing comments. Over to you sir.
- Purvee Roy:** Thank you for your time and we will connect in the next quarter.
- Moderator:** Ladies and gentlemen, on behalf of Karvy Stock Broking Limited, that concludes this conference call. Thank you for joining with us and you may now disconnect your lines.