

27th June, 2016

To,
BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai – 400 001.

Scrip Code: 532641

To,
National Stock Exchange of India Limited
Exchange Plaza,
Plot No. C/1, G – Block,
Bandra Kurla Complex,
Bandra (East),
Mumbai – 400 051.

Scrip Symbol: NDL

Dear Sir,

Sub.: Transcript of Conference Call with Investors / Analysts

The Company had organized a conference call with the Investors / Analysts on 31st May, 2016 to discuss the fourth quarter and full year results for the period ended 31st March, 2016. The copy of the transcript of the conference call is enclosed herewith and the same has also been put up on the Company's website at www.nandandenim.com.

You are requested to kindly take the same on record.

Thanking You,

Yours sincerely,
For NANDAN DENIM LIMITED


Purvee Roy
Company Secretary
Mem. No. A26925



Nandan Denim Limited
(Formerly known as Nandan Exim Limited)
(CIN:L51909GJ1994PLC022719)

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Nandan Denim Limited
Fourth Quarter Full Year FY16 Results Conference Call
May 31, 2016

Moderator: Good evening, ladies and gentlemen. I am Aman, the moderator for this conference. Welcome to Fourth Quarter at full year FY16 Results Conference Call of Nandan Denim Limited organized by Dickenson Seagull IR. At this moment all participants are in the listen-only mode, later we will conduct a question and answer session, at that time if you have a question, please press '*' and '0' on your telephone keypad. Please note this conference is recorded. I would now like to hand over the floor to Mr. Mandar Kapse. Thank you and over to you, sir.

Mandar Kapse: Good afternoon everyone. On behalf of Dickenson Seagull IR let me welcome you all to the Earnings Call of Nandan Denim Limited for the fourth quarter and full year FY 16. Today we have with us from the management Mr. Deepak Chiripal, who is the CEO; Mr. Govind Sharda, President and Mr. Ashok Bothra, the newly appointed chief financial officer. Before we get started I would like to remind you 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 social events. Without further I do, I would like to hand over the floor to Mr. Govind Sharda to make his opening remarks, over to you sir.

Govind Sharda: Thank you Mandar, good afternoon ladies and gentleman. Greetings and a very warm welcome to everyone on the earning call for Nandan Denim Limited for the fourth quarter and the full year 2015-16. At the outset, we would like to inform you that we have announced total interim dividend of Rs. 1.60 per share on a face value of 10, is translating into a dividend payout of almost 16% of FY16 reported earnings per share of Rs. 13.90. We have also received the entire amount of Rs. 500 million against the warrants issued to Polus Global Fund. Out of this Rs. 250 million were received in FY16 and the balance amount of 250 million was received in May 2016. The company accordingly allotted 2.5 million equity shares to Polus Global Fund in May 2016. We have also appointed a new chief financial officer Mr. Ashok Bothra, who has joined us for this conference call. Coming out to our performance for the financial year 2015-16, we continued our growth momentum in FY16 as well supported by high Denim demand and improving profitability. Our domestic denim business continued to grow at a healthy pace on the back of higher volumes and stable realization. We continued to shift our product mix in favor of value-added Denim grades, our shirting business segment witnessed a weaker demand in FY16. Overall, we are quite satisfied on our performance for



the year. Even in this challenging macro-economic environment, we were able to maintain our realizations, drive volume growth and improve on our operating margins. Commenting specifically on our Q4 performance, the total revenue for the Q4 grew by 6% YOY to Rs. 294 Crore Rupees. Higher gross margins coupled with efficient cost control resulted in 25% YOY growth of EBITDA to Rs. 47 Crore. Our PAT growth is lower at 8%, mainly due to higher taxes. On the margins front, EBITDA margin expanded by 250 basis points to 16% and PAT margins expanded by 13 bps to 5.6% for the fourth quarter. For the full year FY16, our topline grew by 6% to Rs. 1,157 Crores, EBITDA grew by 16% to Rs. 191 Crore and PAT grew by 23% to Rs. 63.3 Crore. EBITDA margins and PAT margins for the full year were higher at 16.5% and 5.5% respectively. We were able to register healthy return ratios in FY16 supported by improved profitability and efficient development of capital. We recorded Return on capital of 16% and Return on Equity of 22% in FY16. As you may be aware we are currently in the middle of a capacity expansion plan of Rs. 612 Crore which is funded by 70% debt and 30% equity, just to give you a quick update on the expansion, we have incurred a capital expenditure more than Rs 400 Crore on capacity expansion as of 31st March 2016. We have already completed installation of the shirting facility of 10 million meter for which the processing capacities are underway and have installed Denim manufacturing capacity of 99 million meters per annum and **spinning capacity of 70 tons per day** as of 31st March 2016. We are well on the track to complete our expansion by H1 FY17. Post the execution of the CAPEX plan next year, we would have an installed Denim fabric manufacturing capacity of 110 million meters making us the largest manufacturer of Denim in Asia. Our backward integration would be in place as our spinning capacity would increase to 124 tons per day as compared to 70 tons as of 31st March. This should enable us to produce 80% to 85% of the required yarn in in-house which would not only be margin accretive but would also give us more control on our supply chain and enable us to deliver superior service to our customers in the form of supply of high quality fabric and on-time delivery. Overall, we are very optimistic on the business front for the next fiscal year as our expanded capacities coming on stream.. Our endeavor would be to increase of our domestic market share and expand our global footprint. Our aim is to achieve a double digit growth in FY17 along with the improvement in our operating margins. We would continue to focus strongly on expanding our value-added Denim offering, apart from creating customer and market diversity on sustainable basis to drive profitability. With this, I would like to hand over the call to the participants. We would now be happy to answer any questions that you may have.

Moderator:

Ladies and gentleman, we will now begin the question and answer session. The first question is from the line of Bajrang Bafna from Sunidhi Securities, please go ahead.

Bajrang Bafna:

Congratulations on decent set of numbers. Sir, broadly if you could you know just take us through on the completion timelines of the new CAPEX plan which you are undergoing. I know you have mentioned that Q2 FY17, you know this CAPEX plan is expected to be over but



broadly you know what is your sense on how the economies of scale in this CAPEX plan will benefit the company. If you could just guide us through on that front, it will be really helpful.

Govind Sharda: Basically what you want to understand is that you know how post completion of the project, how the company will benefit, is that?

Bajrang Bafna: Yeah, but currently you know we have already seen the margins have inched up to around 16.5% in FY16 and as we go through the presentation, we are clearly knowing the fact that more and more spinning capacity you put up and you start using the in house yarn, that will definitely benefit the margin profile of the company, but broadly once we are through with this CAPEX plan maybe is from next 2 to 3 year perspective, where do you see the benefit of this entire integration coming in to the company and what is the margin trajectory that broadly we are looking for from a in 2 to 3 years' timeframe.

Govind Sharda: Let me start by giving you a background that 2 years back when we started this project, we used to hover around 14% EBITDA margin and while we are in the middle of the expansion plan, we have already hit 16.5% and in fact in Q2 & Q3 hit 16.7%. The entire genesis behind the expansion is that we would be having in-house yarn manufacturing. We also have the value-added Denim manufacturing facility. All these things will enable us to cater to the higher end of the customer, who are expected to be more profitable for us 8.36. Instead of assigning any particular number, we are just saying that it is tip of iceberg that we are able to achieve and we are looking at much better margins in the time to come. We would refrain from making any guidance on the numbers but just for reference in Q3 we recorded 16.7% EBITDA margin.

Bajrang Bafna: Okay, sir if you could you know just help us understand, you know, what sort of benefit broadly we will achieve from the subsidy mechanism which you know the now since the TUF are over and Gujarat is still continuing with you know the subsidy amount, so what is the broad game plan for the company to grab this particular opportunity you know in 1 to 1.5 years' time. If something you could guide us on that front, it will be really helpful.

Govind Sharda: See the TUFs has been resolved with effect from fiscal 2016, but ours is an old project, so we will not be affected, under the old TUFs policy by the central government, for a composite textile play around 5% of the interest subvention was available and the state government was also permitting 5% interest subvention. Rightly pointed out by you that the state subvention continues for some time, we are not sure how, whether they are going to renew or not, so we would continue to avail the TUFs benefit but all the projects which would be undertaken now, they may not be eligible for the same lucrative benefits which were available under the central TUFs for projects undertaken prior to December/ January 2016. So we continue to avail the benefits under the central TUFs and definitely it is going to be a competitive advantage for all the industry players who have commissioned the project erection before the withdrawal of the TUFs, so we are also going to be one of the beneficiaries.



Bajrang Bafna:

Okay, sir one more question, then I will come in the que. On the price competitiveness side, you know, we have seen cotton prices are subdued at least for the last 2 years because of the global conditions or may be extra inventory which is built up by China, but considering you are already at 16.5% margin, some amount of this could be due to benign raw material prices also, so suppose tomorrow if the cotton starts moving up because you have already seen some amount of price movement in cotton also, so what kind of correlation the business is having with vis-a-vis cotton prices, are we able to pass on the increased cotton cost fully to the customers? How would the dynamics work going forward as per your judgment?

Govind Sharda:

Historically when we talk about the cotton prices and linking it with the prices of the fabric, it is always a pass through whether it is a fall or it is a surge in the prices of the cotton, so we believe the trend will continue. As far as the recent spike of cotton is concerned, that has come post the completion of the season. See from April onwards the prices are going up but otherwise all through the period they were hovering around the MSP, so if you really look at the annual average this would not to be dramatically different, yes temporarily there is a surge because of the metrological department reports, so we do not expect any significant hit or support coming through the cotton prices because it is pass through.

Deepak Chiripal:

One more thing I would like to add is that I think what you are concerned about is if the raw material prices go up, how will the company be affected, So one thing that needs to be looked at is, there are many players in the market and if you look at Nandan you know post expansion, Nandan is going to be a very well vertically integrated company, so we start with cotton and most of the spinning is going to be in-house and then we go all the way up to finish fabric and if you look at the industry currently many players who are newcomers to the industry do not have such kind of vertical integration, so as far as the competitiveness of the company is concerned or sustainable advantage of the company is concerned Nandan is always going to have an upper edge, so as far as the conversions are concerned. Now as far as raw material prices going up, you know it is going to be pan India phenomenon and now that India is very well linked with the global markets, I think it is a global phenomenon so India is not moving in isolation, it is very much in tandem with the global market. As far as volatility in cotton prices is concerned, the company is not isolated from the market but as far as complete advantage of the company is concerned, I think it is definitely having an advantage vis-a-vis many players in the market, so it will always stand to benefit from that sense.

Bajrang Bafna:

Okay, got it, I will come in Que if I have more questions.

Moderator:

The next question is from the line of Abhilasha Satale from First Global, please go ahead.

Abhilasha Satale:

Hello sir, I would like to know what is capacity utilization of the current capacity in shirting and Denim?



Govind Sharda: Yeah. Currently, we are operating~ 82% capacity utilization in Denim.

Abhilasha Satale: Okay and for shirting.

Govind Sharda: It is also hovering around the same number but yes the shirting market has been slightly weaker so we have the flexibility to migrate from shirting to Denim, Hence, we have been utilizing the both the capacities around 82%.

Deepak Chiripal: And one more thing you know since the project is still not completed, so there are going to be part of machines which are not fully operational until and unless the entire project is implemented. We expect that in another 4 to 5 months' time everything would become operational.. Once it is completed then everything will become operational but the company has planned the installation and the projection execution in such a manner that we can get the maximum benefit of machine utilization.

Abhilasha Satale: Okay and sir, by the end of FY17, can we expect capacity utilization moving to around 90% to 95%.

Govind Sharda: No when we talk about 82% or 81%, there is not much scope of improvement as far as the utilization is concerned., So you can do at max an incremental capacity utilization of 1, 2 or 3% if the company wants to become a star performer and I think that is the margin we are looking at, so incremental 2-3% is the number I would say the company is targeting as its own internal targets to improve upon but major growth or major topline is going to come from added capacities and new capacities becoming operational.

Abhilasha Satale: Sir, how much is that.

Govind Sharda: I did not get your question.

Abhilasha Satale: I mean you said major volume will be from added capacity but already like we are having 110 million meters, so are we further adding this capacity.

Deepak Chiripal: Our capacity is still not 110, I would say about 90 million is operational in Denims and about 10 million is operational in shirting, so basically and our target is 110 and 10, so basically our overall capacity is going to become 120 million meters post expansion and we are standing at about 100 plus capacity which will another 20 will become operational in the next 6 months' time. We can do the Math and understand what could be the top line impact.

Abhilasha Satale: Okay, so major volume growth will be driven through this.

Govind Sharda: Yes, that will come and I think the major benefit company can see in second half or the last quarter of this year by that time everything would have become operational and stabilized.



Abhilasha Satale: Okay, sir how much CAPEX we have already incurred on this like of the 600 Crores we have announced, how much is incurred during FY16 and how much is likely to get incurred during FY17.

Govind Sharda: See so far we have incurred Rs. 400 Crore worth of CAPEX, so another Rs. 200 Crores will be incurred in H1 FY17, by the end of which we would have completed our capacity expansion.

Abhilasha Satale: Okay and sir I would like to know how our debt will move going forward, what will be our peak debt or you know we are also having some repayments during the year, so how will it move.

Govind Sharda: Our annual repayment liability is around Rs 54 -55 Crore and we are that still to withdraw another Rs. 200 Crore for the CAPEX plan which is funded 80% by the debt and as of now we are expecting outstanding debt of around Rs. 520 Crore add another 150 and subtract another 50, so our peak debt would be anywhere between 600 to 650 Crores depending on the working capital utilization.

Abhilasha Satale: Okay, and sir, one more question on the industry as such, in the near term you are seeing the cotton prices moving up and so in the earlier question you also specified that we are passing on the cost increase and also have denim prices moved up in the near term.

Govind Sharda: Yes, in the recent past we have definitely moved up, so we expect the trend to continue. It is a matter of product diversity and the market diversity and the customer diversity. The more we are able to move up in the value chain, the higher would be the realization.

Deepak Chiripal: One more thing I would like to answer, you know the Denim business on one hand, definitely the market is growing but on the second hand there is a lot of capacity which is being added in the country so a lot of supply is also increasing. So I would say that it would be very difficult for any player to increase the prices for the same kind of product. So, it is very unreasonable to expect that given the demand and supply situation the company will continue to increase prices. The only way to increase the average prices is going to be introducing new kind of products and continuously investing in R & D and new products, and also diversifying the customer base and tapping new markets, because this is a global product. We are already in the process of doing these things so we are quite hopeful that you know if we continue to do these efforts then company is going to be able to get better returns for its investors in the coming time as these efforts start fructifying.

Abhilasha Satale: I was just about to come to that point sir, India is gaining market share in the global market, basically on the cotton product. Denim being a cotton product how do we position ourselves in the international market, like other products like Bed linen and all are very well-accepted in the internal market. So which/how have our exports moving out? How do you see that you know segment moving going forward?



Deepak Chiripal:

I think as you rightly pointed out any product which is cotton based, India will have some kind of competitive advantage vis-a-vis the countries who would not have domestic cotton base, so definitely India has not been a very well-known sourcing destination as far as Denim is concerned for international community, but slowly India is being taken seriously and lot of interest is being generated for sourcing from India and which is quite visible in the exports. The garment exporters of India are also seeing lot of activity, so lot of fabric which is being produced in India is going to get converted into garments in the Indian sub-continent but definitely in coming years we will see lot of exports, there is a huge potential of increasing exports going ahead from India.

Abhilasha Satale:

Have you seen I mean exports going up as far as our company is concerned?

Deepak Chiripal:

As far as our company is concerned definitely we look at last 2-3 years definitely a lot of improvement has happened and next 2 or 3 years I would say further improvement is targeted and expected. As far as to give you some numbers FY-13 exports business used to be about Rs 70 crores which has gone up to 140 crores in this year, so I would say it has doubled in last 3 years.

Moderator:

The next question is from the line of Mr. Shailesh Kumar from Sunidhi Securities. Please go ahead.

Shailesh Kumar:

Good Afternoon, Mr. Deepak, just a question from medium term perspective now our ROE is heading upwards of 20% and I believe in like couple of years it should peak around close to 24-25% but is it sustainable doing the plain vanilla weaving thing, will we be able to sustain ROE upwards of 20% because any new product which is launched in the market as per industry becomes commoditized in 3-6 months. So in order to sustain our competitive advantage and uphold our return on equity how do you see the business spanning out over next 5-10 year of period.

Deepak Chiripal:

You have rightly pointed that if we continue or if we continue to focus in commodities you know it is very difficult to sustain the kind of ROE that we have mentioned so the effort of the company is to invest heavily in the market development, business development and product development. Instead of taking this denim business as a commodity and a manufacturing business, the company is changing its strategy and now we are taking this business more as a fashion business so we are investing our resources in understanding our customers, understanding the fashion, understanding the requirements of the market, changing fashion trends and then accordingly delivering/developing such products and such capabilities to be able to deliver such things to the market. So fortunately the company is also in the investment stage so the capacities that we are able to build up are very much in line with the upcoming requirements or forecasted requirements of the market. So the company is very much planning to and is also taking necessary steps so that it can come out of this commodity cycle and it can get better returns, have a sustainable future.



Shailesh Kumar: If you could give us some sense about what are those strategies or what are those line of thoughts where we are moving ahead?

Deepak Chiripal: As I mentioned to you there are going to be 3 things, one is regarding the business development which is also related to the target audience and the kind of geographies. So we are now not only focusing on domestic market, we are also looking at the international market, because Denim is a global product. Second is we are also talking about the kind of products that we manufacture, so we are focusing very much on the various kinds of value-added products which can be made, with the execution of our capacity expansion plan we are building up the capability to deliver such products. Thirdly, understanding the fashion aspect and the R&D and product development, we are investing heavily in these things, market research and product development and building up the customer relationships, so all these things take some time but ultimately these are the things which will be build up would be the USP of the company and it will help company tide over difficult times.

Shailesh Kumar: How many months down the line can we expect something branded as Nandan.

Deepak Chiripal: I do not think we will hassle unless and until company comes to a product which is directly in the direct consumer space, because we are a B2B player, we are not a B2C player. As far as B2B segment is concerned definitely we should expect that when can we expect Nandan to become a popular supplier. I expect that to happen in another 1 or 2 years' time, we are surely going to make some head way in to good brands of the country as well as international brands. So right now also aggressive efforts are being made and if we continue to do so then in the next couple of years we can see a drastic change in the popularity of the company.

Shailesh Kumar: Great, Okay just a housekeeping question, what has been the overall cotton price and average yarn price which we had sourced from outside for FY-16 full year basis.

Shailesh Kumar: Average cotton price and average yarn price, external yarn price for FY-16 for the company.

Govind Sharda: The average cotton prices have been hovering around Rs. 95 to Rs. 100 and the cottons and yarn prices have a wide variation actually, could be ranging anywhere between Rs. 120 to Rs. 220, it depends on the type of the yarn that we are using. We have a raw material cost of around 66% for the year and average realization of around Rs. 135, so the average cost is around Rs. 89 per meter of fabric, which is equivalent to around 175 to Rs. 180 per Kg on a broader average basis.

Shailesh Kumar: Okay, and sir, by when can we expect to start producing this dyed shirting fabric?

Deepak Chiripal: Shirting fabric we are already producing, what we are not able to produce is dyed shirting fabric. The installation of processing facilities is already underway and we expect it to be finished in Q2.



Shailesh Kumar:

Q2, okay fine.

Moderator:

The next question is from the line of Aditya Iyer from Dimensional Securities, please go ahead.

Aditya Iyer:

Hello Sir, Good afternoon, actually my first question is more generally a business related question. So now being the leader in your segment of in terms of Denim capacities in India, but we still see that Arvind gets like a substantially higher realization per meter, so I just wanted to understand what actually drives this. Is it like but at the same time your margin seem to be very similar. So is it that you are more efficient but you are still not able to command a premium because they are like older in the business, so is it like mix of customer mix or product mix, what is actually driving the differences what I want to understand.

Govind Sharda:

It would be unwise for us to make any parallel comparison with Arvind. Arvind is a very respectable player and perhaps they are the front runners in the sector. But I think they are also into the branded fabric and the numbers get merged, so I do not have privy to their internal number, I think Arvind is better placed to explain about our profitability, because they know we are B2B player.

Aditya Iyer:

Okay, fair enough and sir, the second question would be pertaining to, how do you see this trans-pacific partnership impacting export volumes going ahead and that as well as is there anything further that you have heard on the European Free Trade Agreement.

Deepak Chiripal:

See as far as TPP agreement is concerned, definitely the countries which are participants and particularly Vietnam would be a gainer but as far as India is concerned, I do not see too much of an impact because our base is as it is very low as such. If we talk about the international community, as far as Denim is concerned we are not a major supplier, so I do not think you know we will really have an impact and as far as our supplies are concerned, we are supplying something which is not very commodity so I think India would not really see that much of an impact because it is not the major supplier of Denim product to the global market. I don't think there is too much to be worry and as far as you know opportunity for India is concerned definitely I see there will be something better, tomorrow is going to be better than today because there are going to be countries which require fabric. Not the whole world is exporting to US, right, there are so many countries in the world which are consumers of Denim itself and which are not a part of TPP, so just putting our strategies right will help us gain more market share.

Govind Sharda:

Aditya I would further like to add that US is not the biggest importer of fabrics from India actually it is the EU which is the biggest importer and the TPP benefits would be available to a country only when they have the integrated manufacturing that is they should have the spinning, weaving, process everything in place, right now all those countries who are in the TPP beneficiary list none of them are really having the sizeable integrated capacities in place.



I think it will take some 3-5years before they can really come out with the integrated solution and by that time I hope we would also be having some priority arrangement with the EU which is the biggest market for the Indian textiles.

Moderator: Thank you very much, there are no further questions. Now I hand over the floor to Mr. Mandar Kapse for closing comments.

Mandar Kapse: Thank you all for participating in the earnings call, please get in touch with us in case you need any further information on the company. Our coordinates have been provided in the call invite that has been circulated as well as the presentation, thank you and good day.

Moderator: That concludes the conference call. Thank you for joining us ladies and gentleman, you may now disconnect your lines.

