

21st December, 2017

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,
BKC, Bandra (East),
Mumbai – 400 051.

Scrip Symbol: NDL

Dear Sir,

Sub.: Transcript of Con Call held on 13th December, 2017

Pursuant to Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, we enclose herewith, a transcript of Concall with Investors and Analysts which was held on 13th December, 2017.

You are requested to kindly take the same on record.

Yours faithfully,

For NANDAN DENIM LIMITED


Purvee Roy
Company Secretary
(Mem. No.: F8978)



Nandan Denim Limited
(CIN:L51909GJ1994PLC022719)

Registered Office

Survey No. 198/1, 203/2, Saijpur-Gopalpur, Pirana Road, Piplej, Ahmedabad - 382 405
Ph.: +91 9879200199 Website : www.nandan denim.com Email : info@nandan denim.com

Corporate Office

Chiripal House, Shivranjani Cross Roads, Satellite, Ahmedabad - 380 015
Ph.: 079-26734660/2/3 Fax : 079-26768656



“Nandan Denim Q2 FY2018 Post Results
Conference Call”

December 13, 2017



**ANALYST: MR. THOMAS V ABRAHAM - RESEARCH ANALYST -
KARVY STOCK BROKING LIMITED**

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



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Moderator: Ladies and gentlemen good day and welcome to the Nandan Denim Q2 FY2018 Earnings Conference Call, hosted by Karvy Stock Broking. As a reminder, all participant lines will be in the listen-only mode. 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 “*” then “0” on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Thomas Abharam from Karvy Stock Broking. Thank you and over to you Thomas!

Thomas V Abraham: Thank you Ali. Good afternoon ladies and gentlemen. On behalf of Karvy Stock Broking Limited, I welcome you all for the Q2 FY2018 Earnings Conference Call of Nandan Denim Ltd. Today, we have with us the Senior Management of the Company represented by Mr. Ashok Bothra – Chief Financial Officer, and Ms. Purvee Roy – Company Secretary. I now request Mr. Ashok Bothra to give his opening remarks. Thank you and over to you Sir!

Ashok Bothra: Good afternoon ladies and gentlemen. Greetings and a very warm welcome to everyone present here for the earning call of Nandan Denim Limited to discuss the Q2 of Financial year 2018.

We displayed a decent performance this quarter in line with the first quarter run rate and we continue to register a healthy topline growth on year-on-year basis. Coming to our financial performance, our revenue from operations increased 37% YOY basis from Rs.303 Crores to Rs.415 Crores. Denim business has increased by 5% from 265 Crores to 278 Crores. Shirting fabric sale increased by 15% from 20 Crores to 22.6 Crores.

. Our Denim realization per meter for H1 FY2018 was around Rs.135 per meter, which is 3% increase over the previous year. Similarly our shirting realization improved by around 4%. The recent slowdown in view of GST has slightly impacted our performance, but favorable industry level policy changes along with GST rate cut on the Jobwork, etc., will revive the demand shortly and will improve our utilization level.

Gross margin declined marginally on a year-on-year basis, but improved on a QOQ basis to 32%. Rising input cost in the form of higher raw material prices coupled with pricing pressure, have led to this marginal decline. EBITDA margin has mirrored the gross margin trend.

Depreciation during this quarter increased to 29.4 Crores from 16.90 Crores because of expanded capacities but remained flat on a QOQ basis. Finance cost also increased to 15.4



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Crores from 8.8 Crores mainly because due to the project finance cost capitalization in the previous financial year.

We would like to say that we are eligible for various state benefits of Re.1 per unit towards power, VAT reimbursement and interest subsidy. The benefit of state policy is expected to be reflected in Q4 this financial year, post approval from Authorities.

Profit after tax remained flat on YOY basis and QOQ basis and stood at 16.10 Crores for the quarter. PAT margin declined from 5.4% to 3.9% on YOY basis.

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

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 Manish Ostwal from Nirmal Bang. Please go ahead.

Manish Ostwal: Sir, can you give me the breakdown of sales volume during the quarter, in terms of Denim and shirting? I mean sales volume figures for the quarter?

Ashok Bothra: It is around 22.17 million meters as against 21.3 million meters in Q2 FY2016-2017.

Manish Ostwal: Secondly Sir, gross profit margins, you also commented during the initial remarks that it is down compared to last year H1 to H1, so how do you see the gross margin going forward and secondly, how many months of inventory do we keep for the quarter and what is your outlook for the same?

Ashok Bothra: The drop in gross margin is mainly because of the higher cotton prices, but we are seeing a downward trend as compared to previous year from Q3. So, profits should improve to that extent. Further in view of GST, you must be aware that textile traders went on strike, so lot of efforts were required to sell through dealers, resulting in lower sales realisation

Manish Ostwal: There was a lot of discounting.

Ashok Bothra: Pricing was in line with the prevailing Market price. We have to price our goods in line with industry rates, but since this was a temporary phenomenon, things should start improving from March/April onwards.



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Manish Ostwal: Secondly, you were talking about certain tax benefits under the state policy which will accrue in Q4. How do we account for that? What quantum can we anticipate from that?

Ashok Bothra: You must be aware that we completed our expansion in Q3 FY2017, so we have applied to the state government. Once we receive in-principle approval from them, we can start booking the benefits because there would not be any uncertainties.

Manish Ostwal: Out of the total gross debt figure of 664 Crores, how much is high cost debt?

Ashok Bothra: Long-term borrowing is around 470 Crores and annual repayments are around 60-odd Crores and remaining would be the working capital utilisation.

Manish Ostwal: And cost of debt, Sir?

Ashok Bothra: Cost of debt will be around 11% but efforts are being made for reduction. So that should happen in the next three to four months.

Manish Ostwal: Is the utilization level expected to improve in the coming quarters?

Ashok Bothra: It should go up from Q4 onwards.

Manish Ostwal: Thank you.

Moderator: Thank you. We will take the next question from the line of Ojasvi Agarwal, an Individual Investor. Please go ahead.

Ojasvi Agarwal: Good morning Sir. My question is regarding the raw material prices. We witnessed higher prices in the middle of the year, which was projected to about 10% now. How would the recent fall in cotton prices improve your margins after the first two quarters?

Ashok Bothra: It depends on the actual cotton prices, which will be prevailing during the next couple of months. So whatever raw material we were having, got exhausted in the month of September and October. Now with the arrival of new season, the prices are down and industry is of the opinion that it should remain flat and maximum will remain as high as previous year. So that should add to your bottom-line, if there is no commensurate drop in the sales realization.



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- Ojasvi Agarwal:** Sir, what is the margin improvement in the next two quarters?
- Ashok Bothra:** Our focus would be on improving our EBITDA level margins, but compared to other players, our financials are better. This performance is despite the negative impact of demonetisation and GST. Once the impact of GST is over, Industry as well as Nandan will be showing better results.
- Ojasvi Agarwal:** The incremental capex that you have done, has not resulted in any improvement in your bottomline. So is this also due to the raw material prices and the GST issue. What margins are you looking at in the next few quarters?
- Ashok Bothra:** As soon as we completed our expansion, we had demonetisation and then GST. So we could not show higher results, higher profits, but these are temporary phenomenon and the industry outlook is quite positive. Further , there was backward integration, which will add to bottomline.
- Ojasvi Agarwal:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Prachi Dave, an individual investor. Please go ahead.
- Prachi Dave:** Sir, you mentioned that the EBITDA margin can improve with more value-added products. Can you let us know the industry size for these value-added products? Is it growing?
- Ashok Bothra:** Since we completed our expansion recently, our immediate focus would be on higher capacity utilization. Once that is achieved, we will start focusing on higher value-added product. But again, it will depend on how much market is there for the value-added products. As of now, focus will be on higher capacity utilization level.
- Prachi Dave:** What is your capacity utilization as of now?
- Ashok Bothra:** It is around 80%.
- Prachi Dave:** Theoretically it can go up to 95, but practically it is only up to 90, right?
- Ashok Bothra:** Theoretically it can go to 100% and practically it can go anywhere between 95% and 100%.
- Prachi Dave:** Can you let me know the rate at which the industry is growing?



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- Ashok Bothra:** Five years CAGR for the industry was around 15%.
- Prachi Dave:** So you expect the similar outlook for the future as well?
- Ashok Bothra:** Yes, we are quite optimistic.
- Prachi Dave:** Sir, you mentioned that in-principle approval is pending. Have you received that?
- Ashok Bothra:** We are expecting this approval in Q4.
- Prachi Dave:** The state government impact, so you would get the power at Re.1 so what would be the impact overall for the year?
- Ashok Bothra:** Power subsidy benefit may be around 4 to 5 Crores per annum.
- Prachi Dave:** 4 to 5 Crores power and 20 Crores of interest benefit, right?
- Ashok Bothra:** Yes.
- Prachi Dave:** Thank you.
- Moderator:** Thank you. The next question is from the line of Thomas V. Abharam from Karvy Stock Broking Limited. Please go ahead.
- Thomas V Abharam:** Sir, I just wanted to know, in the revenue mix, what is the percentage of yarn sales in that and what is the realization for yarn?
- Ashok Bothra:** Yarn sale is around 100 Crores, out of 415 Crores. Yarn realization was around Rs.203 per kg.
- Thomas V Abharam:** Thank you.
- Moderator:** Thank you. We have the next question from the line of Shivam Vashi from Alpha Alternatives. Please go ahead.
- Shivam Vashi:** Sir, our gross margin has improved whereas our realization has decreased. What's the reason behind this?



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- Ashok Bothra:** If you compare Q1 versus Q2 of this fiscal, the sales realization was around Rs.140 for Denim in Q1 and Rs.131 for this quarter. For H1, it is around Rs.135 per meter, but again sales realization is a subjective matter and it depends on the product mix. If the product mix consists mainly of gray fabric, then realization per meter will come down, but simultaneously your cost of production will also come down because we would not be incurring any Dyeing cost.
- Shivam Vashi:** Sir, do you expect cotton prices to go down further?
- Ashok Bothra:** Prevailing cotton price is around 38,500 to 39,000.
- Shivam Vashi:** Sir and per kg realization of yarn?
- Ashok Bothra:** Per kg realization is Rs.203.
- Shivam Vashi:** What was the cotton cost then, Sir?
- Ashok Bothra:** Are you talking about Q2?
- Shivam Vashi:** Yes, in Q2, what was your cotton cost?
- Ashok Bothra:** Q2 it was hovering around Rs. 43,000 per candy.
- Shivam Vashi:** 43,000 per candy. Thank you.
- Moderator:** Thank you. We will take the next question from the line of Sunil Jain from Nirmal Bang. Please go ahead.
- Sunil Jain:** Sir, my question is relating the yarn realization, which remained stagnant in the last quarter. How do you expect this in the current quarter? Will it go down with the decline in the cotton prices or will it remain stable?
- Ashok Bothra:** It depends on cotton pricing. If the cotton prices are lower, then yarn realization should be lower per kg.
- Sunil Jain:** So, you expect this realization of yarn to come down?



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- Ashok Bothra:** We must be in line with the industry. If there is more demand for yarn and supply is less, then definitely we can pass on to higher extent.
- Sunil Jain:** In the current quarter, already two and a half months have gone by. What is the present trend?
- Ashok Bothra:** That would be forward-looking statement.
- Sunil Jain:** The current cotton prices are between 38,500 and 39,000?
- Ashok Bothra:** It is around 39,000.
- Sunil Jain:** Is it likely to remain here or is it expected to move?
- Ashok Bothra:** Cotton prices are likely to be subdued during this season. Last year it touched around 44,000 and now we expect peak prices to be around 42,500
- Sunil Jain:** So, procurement is solely from Indian markets or is a certain portion imported as well?
- Ashok Bothra:** It depends on the total landed cost. If the imported prices are cheaper, we can go for imported ones.
- Sunil Jain:** But are you doing anything right now?
- Ashok Bothra:** Last year we procured some cotton from outside. But the cotton from Indian market is competitively priced, so we don't see the need to import.
- Sunil Jain:** Sir, what will be the capex plan for the current year or the coming year?
- Ashok Bothra:** As of now, nothing is on the card.
- Sunil Jain:** Nothing Capex. But can we expect maintenance Capex?
- Ashok Bothra:** For running the show, whatever we need to incur we will incur, so that forms a part of opex.
- Sunil Jain:** How much is the debt repayment schedule for FY2018?
- Ashok Bothra:** Around 58-odd Crores, during the year.



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- Sunil Jain:** So that is for the long-term?
- Ashok Bothra:** Long-term, yes.
- Sunil Jain:** Thank you.
- Moderator:** Thank you. The next question is from the line of Abhishek Maheshwari from Wallfort Financial Services. Please go ahead.
- Abhishek Maheshwari:** Sir, now the cotton prices have fallen by 10% to 12% per candy?
- Ashok Bothra:** From the peak level, yes.
- Abhishek Maheshwari:** So, same goes for Denim? You will have to reduce the Denim realizations by 4% to 5%?
- Ashok Bothra:** Yes, if cotton prices are increasing by say 20%, to sustain in the industry, we also need to increase our Denim price. Cotton prices will come down and realization has to come down, because other players will be quoting lesser price for Denim.
- Abhishek Maheshwari:** So, if the cotton prices fall by 10% to 12%, can we assume that you will reduce your Denim realization by at least 4% to 5%?
- Ashok Bothra:** Again, it is very subjective question. We will follow the industry trend.
- Abhishek Maheshwari:** Your inventory period is around three months, right?
- Ashok Bothra:** Inventory consists of two major parts; one is cotton and the other will be raw material other than cotton and again finished goods and WIP. You are talking about which component?
- Abhishek Maheshwari:** Sir, the benefits from reduction in cotton prices can only be observed in Q4 or some of it can be expected in Q3 as well?
- Ashok Bothra:** The arrival of the cotton season is from October onwards. So, cotton pricing, raw material prices, is one of the component. Sales, realization, etc. are the other components which need to be factored in.



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Abhishek Maheshwari: Sir, we are hearing a lot about pink bollworm attack, which has destroyed some of the harvest in the country. Do you think that will have a negative effect on cotton prices? The cotton prices might not fall as much as we expect, in coming months?

Ashok Bothra: It has been already factored in by the Market,, otherwise there would have been steep increase in the cotton prices.

Abhishek Maheshwari: But it is subdued as per your opinion?

Ashok Bothra: It will not go up.

Abhishek Maheshwari: Thank you very much.

Moderator: Thank you. As there are no further questions from the participants, I now hand the conference over to the management for their closing comments.

Ashok Bothra: Thank you.

Purvee Roy: We thank the participants for participating in the conference call. In case of any query you can contact us.

Moderator: Thank you. Ladies and gentlemen, on behalf of Karvy Stock Broking that concludes this conference call for today. Thank you for joining us. You may now disconnect your lines.