

4th June, 2018

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,

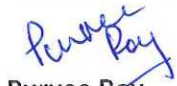
Sub.: Transcript of Con-Call held on 29th May, 2018

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 Con-Call of the Company with Investors and Analysts which was held on 29th May, 2018.

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)

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“Nandan Denim Limited
Q4 FY2018 Earnings Conference Call”

May 29, 2018



ANALYST: MR. SACHIN BOBADE- DOLAT CAPITAL LIMITED

**MANAGEMENT: MR. DEEPAK CHIRIPAL – CHIEF EXECUTIVE OFFICER –
NANDAN DENIM**

**MR. ASHOK BOTHRA– CHIEF FINANCIAL OFFICER –
NANDAN DENIM**

**MS. PURVEE ROY – COMPANY SECRETARY - NANDAN
DENIM**

Moderator: Ladies and gentlemen, good day and welcome to the Q4 FY2018 Earnings conference call of Nandan Denim Limited hosted by Dolat Capital Limited. As a reminder all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference to Mr. Sachin Bobade from Dolat Capital. Thank you and over to you Sir!

Sachin Bobade: Good evening everyone. On behalf of Dolat Capital, I welcome you all to the Q4 FY2018 post results conference call of Nandan Denim. Today from the management side we have with us Mr. Deepak Chiripal – CEO, Mr. Ashok Bothra – CFO and Ms. Purvee Roy – Company Secretary. Now I hand the floor to the management for the opening remarks and then we will have question and answer session. Over to you Sir!

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 Q4 and the financial year 2017-2018.

Denim as a single group-leading segment in fashion industry there has never been a better time for retail industry specifically the Denim industry as there is a huge growth year-over-year. It is expected to grow around 10% to 15% CAGR over the next decade, a plethora of factors like India's growing economy, young population demographic, rise in disposable income and urbanisation will drive the growth of Denim industry.

On the other side, in last couple of year's Denim fabric supply had grown at higher rate than the growth in demand, which leads to increase in demand and supply gap. As the Denim fabric industry is dominated by unorganized sector, domestic sales channels had still not completely recovered from the impact of GST tax regime and continues to remain weak.

Coming to our financial performance in FY2018 and Q4 of FY2018, Nandan Denim was operating at 74% of its capacity utilization, around 15% higher than the average industry utilization of around 60%. The company has sold 78 million meter of Denim fabric in FY2018 with blended realization of Rs.132 per meters versus 76 million meters at Rs.131.60 per meter in FY2017. During the year the company had sold 8 million meter of shirting fabrics at blended realization of Rs.114.5 per meters versus 8 million meters at Rs.103.8 per meter in FY2017.

Coming to our financial performance, our revenue from operations substantially increased by 30% Y-o-Y from Rs. 12,204 million in FY2017 to Rs. 15,889 million in FY2018 and revenue for Q4 stands at Rs.3,868 million. Denim fabric sales for the year increased by 3% Y-o-Y from Rs. 10,067 million to Rs. 10,317 million, shirting fabric sales increased by 9% Y-o-Y from Rs. 843 million to Rs. 919 million. Yarn sales for the year stood at Rs. 4,317 million.

Denim realization per meter for FY2018 is at Rs.132 per meter versus Rs. 131.6 per meter in FY2017. Our FY2018 shirting realization has improved by 10% on a Y-o-Y basis to Rs. 114.5 per meter in FY2018 from Rs.103.8 per meter in FY2017.

FY2018 the growth profit increased by 27% Y-o-Y that is Rs. 5,041 million compared to Rs. 3,971 million in FY2017. The gross margin for FY2018 stood at 31.7%. In the Q4 of FY2018 the gross profit was Rs. 1,176 million with the margin of 30.4%.

The company reported an EBITDA margin for FY2018 as 14.2%. During the year the EBITDA increased by 21% Y-o-Y to Rs. 2,258 million versus Rs. 1,868 million in FY2017. Q4 FY2018 the EBITDA stands at Rs.413 million. The company has reported a finance cost of Rs. 580 million in FY2018, it was increased due to interest cost attributed towards the capitalization of carrying cost of machinery in FY2017. In principal approval from state government for recognizing the subsidy income is expected to be in the first of half FY2019, reduction in finance cost can be expected on the back of schedule debt repayment of Rs. 150 million per quarter and booking of subsidy income on interest cost. Company has reported PBT of 612 million and PAT of 467 million in FY2018.

The demand supply gap is expected to reduce in next financial year on the back of increase in future demand and no more new capacity additions because of expiry of Gujarat state textile policy and tighter credit lending norms. Our focus for the coming year will be to enhance the capacity utilization and better utilization of resources thereby reducing overheads and improving operating margins.

With this I would like to handover the call to questions and answer session.

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| Moderator: | Thank you very much. We will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. We have the first question from the line of Ninad Sabniz who is an individual investor. Please go ahead. |
| Ninad Sabniz: | Good afternoon. I have basically one or two questions. Right now, what is the capacity utilization of yarn for the current year and are you still buying the yarn from market or you have the facility to produce all type of yarns, just wanted to know that? |
| Ashok Bothra: | Our yarn manufacturing facility is running at around 85% against the weaving capacity of 75% but somewhere it is not economically viable to produce, so we buy it from outside. |
| Ninad Sabniz: | What would be the proportion that you are buying? |
| Ashok Bothra: | Around 10% to 15%. |
| Ninad Sabniz: | Okay. And this is sourced from? Are there any fixed vendors or it keeps fluctuating? |

- Ashok Bothra:** It depends on the pricing; also the sellers are mainly from Gujarat only.
- Ninad Sabniz:** Okay. Got it. And so what are the capex plans for the upcoming fiscal FY2019? Are you looking to enter into any garment business, which goes straight to the customer because majorly we have been so far on the B2B side but B2C should be really helpful in garnering visibility and more market presence so any plans on those lines?
- Ashok Bothra:** As of now, no concrete proposal is on the card, so we do not intend to incur any capex as far as capacity addition is concerned. Regarding venturing into B2C this is a different ballgame altogether, so we intent to remain in manufacturing of denim only.
- Ninad Sabniz:** Continuing on the capex line what is the maintenance capex, which has been incurred this year and any growth or reduction expected in the upcoming years?
- Ashok Bothra:** Maintenance capex was around 15 Crores to 20 Crores. If there is no major breakdown, 15 Crore to 20 Crore will be sufficient.
- Ninad Sabniz:** So on the horizon, there is no upgradation or replacement involved?
- Ashok Bothra:** There are no capex plans in immediate future.
- Ninad Sabniz:** That is all from my side. Thanks for your explanation.
- Moderator:** Thank you. The next question is from Ujavsi Agarwal from Indiab Capital. Please go ahead.
- Ujavsi Agarwal:** Sir my question is regarding the dip in revenue, it is flat as compared to last year despite the capex, so I think this would be because of GST itself because during the last concall also I think the CFO had mentioned that this is because of GST, so Sir do you see any improvement in Q1?
- Deepak Chiripal:** Capex has been in backward integration in the corresponding period. There has not been any capex as far as capacity addition of denim is concerned, only thing is backward integration. So as it is the topline would not have increased. Having said that, there is a scope of improvement in topline. It is definitely because of GST impact on the demand side. GST alignment is still taking time as far as the economy is concerned still we are facing the problem of realignment of the liquidity position in the market so settling period is longer than expected, which is taking time and we hope that by Diwali this year things should get in shape and so going ahead definitely we see there is going to be a bright future for two reasons, one is things are going to streamline as far as GST is concerned and secondly, the demand supply situation would also improve fundamentally and the gap should also cover up. So by this year end, we are definitely expecting a better performance.
- Ujavsi Agarwal:** Sir my second question was regarding receivables. The receivables are gone up drastically as compared to last year and last year the March 31, 2017 we have got 135 Crores which are now

272 Crores, so I want to know is the company facing any problem with respect to realization in the market or why is the receivables number so high?

Ashok Bothra: If you see, sales has increased by 30% because last year it was around 1220 Crores and this year we closed to the topline of around 1600 Crore. Moreover DSO has increased from 40 to 60 days, which has made the receivables going up by 100%.

Deepak Chiripal: Also as we mentioned that because of the GST realignment taking place, the receivables have definitely increased in general that is the reason why company has been very cautious in running full capacity and extending credit. So that is also apparent as far as the performance of the company is concerned, but we are quite hopeful that this is just a temporary phenomenon and once this is absorbed completely into the trade, which is happening but not at that faster pace that we expected and it is taking longer than what was expected so may be another six months it will absorb into the system, so once that is done we expect the outstanding of the receivables to come down and also sales to pickup.

Ujavsi Agarwal: That will be all from my side Sir. Thank you so much.

Moderator: Thank you. The next question is from the line of Ankit Shah from White Equity. Please go ahead.

Ankit Shah: Thank you for taking my question. Sir we observe there is some increase in other expenses in Q4 versus Q3, I guess it has come at around 57 Crores versus 40 Crores can you please explain this and what components have resulted in this?

Ashok Bothra: So there is a provisioning for debtors of around 6 Crores and increase in other cost including power & fuel, CSR, etc.

Ankit Shah: Okay. Is there any large CSR spend that would have come in this quarter?

Ashok Bothra: we have incurred the mandatory expenditure as required by law.

Ankit Shah: Sir wanted to check one thing we had VAT reimbursement for eight years for the capex that we have done as per the incentive. Now with GST would we have those GST reimbursement as well?

Ashok Bothra: We will, but modality has to be announced by the state government.

Ankit Shah: Okay, Sir they are yet to give a confirmation on whether GST will be falling in this or no?

Deepak Chiripal: VAT will be converted into GST and GST benefit will be received by all the investors that is already announced. The modalities of how it will happen are yet to come out and it can come out anytime soon. We are expecting anytime soon the modalities is to be announced and the notifications to come out but as far as the commitment of the government is concerned that is

already made and it is there in the policy also that VAT will be reimbursed and when VAT gets converted into GST that will also be covered.

Ankit Shah: Sir just a follow up on this one whenever the approval comes in, would it be applicable retrospectively from the time of completion of capex or we will get it prospectively from the time we get the approval?

Deepak Chiripal: No, it will be covered from date of commissioning and once the approval comes it will be retrospective effect and whatever the time period is defined now. Because in GST the rates will change, earlier the VAT used to be 5% of the refund rate but in GST the rates will come down to 2.5%. So the time period will also increase since it cannot be taken in eight years. It will increase but how many years, whether it will be 12 years or 14 years or 16 years that has to come out. In any case it will start from the date of commissioning of the project so basically it will be retrospective.

Ankit Shah: Okay. Even the interest subsidy will be retrospective is it?

Deepak Chiripal: Interest subsidy is in any case available but we are yet to get the approval because last six months or last seven months, there has not been any committee formed after GST. So as soon as the committee is formed to take decisions on such matters our case will be taken and we are going to get the approval. So it will be from retrospective effect.

Ankit Shah: Sir just one last question that I have is over last many years we were broadly been able to maintain steady EBITDA margins despite high volatility in cotton prices. So do we have any raw material pass on clause with our customers or are we hedged on cotton or how are we managing this volatility in cotton prices and not letting that affect our EBITDA margins?

Deepak Chiripal: We are basically not speculating on cotton prices. We are focusing more on conversion so basically what we focus on is raw material and finished good conversion and we try to do better than our competition in that and that is the reason why we are able to get it but if we have been taking more speculative calls then you know results will vary drastically but since we are focusing more on conversions and what company does, which is manufacturing so that is why we are pretty much in that range.

Ankit Shah: That is it from my end. Thank you so much for answering my questions.

Moderator: Thank you. The next question is from the line of Shivam Vashi from Alpha Alternatives. Please go ahead.

Shivam Vashi: Good evening Sir. My question is on the realization front, so what we have seen is that Nandan's realization has always been around 130s to 135s in Q1 we were able to clock around 140 and which again came down to 131 to 132 so is it that our product is becoming more commodity product and there is no value addition being done on the product front, is it because of that?

- Ashok Bothra:** Our realization 125 is excluding GST if we include the GST realization would be around 129-130 against 132 same in the previous year.
- Shivam Vashi:** So what I am trying to understand Sir is that our product is becoming more commodity product as in there is not any value addition to enhance the realization?
- Deepak Chiripal:** Partly your answer would be yes and partly it would be no, so it is a mix of everything. There has been lot of capacity additions in the country in last one and half to two years. So as more and more players have come into play because of government policy so definitely there has been lot of competition increase, which has happened and not to miss out the GST effect, which has dampened the demand. Actually there is demand but due to liquidity problem in the market, which is being absorbed. So on one hand, supply has increased and on the other hand we face the problem of liquidity in the market as far as the buyer or demand is concerned so there has been this double-whammy, which as I mentioned, it may take about six to nine months more to come out of this situation. So basically, demand supply will definitely makeup for itself in next six to nine months and we expect the liquidity situation should also improve in six to nine months. Once that is done, things should fall in line. The company is somehow trying to survive in this period because this is a tough period I would say not only for us, but general textile company and we expect going ahead, things will be much brighter but next three to four months or may be six months we have to makeup with the suboptimal performances.
- Shivam Vashi:** Thanks Sir. So that is the question, when you say there is a lot of capacity in the market, even we have done a recent capacity addition so what different are we presenting to our dealers in terms of value addition to be done, like are we doing some kind of processing capacity enhancement. When I say capacity enhancement what I mean to say is like some value addition on the processing part or the weaving end to differentiate about it so that you know we do not take margins as much as we have taken in this quarter like we have already come to around 10% if I am not wrong, so that is a very significant hit. So is Nandan doing any significant R&D at the processing end or at the weaving end and similar things to differentiate themselves so that they can maintain their margin?
- Deepak Chiripal:** Yes, definitely we are focusing more and more on R&D and product development and developing more and more fashionable product. It starts from fibre and goes all the way up to weaving and then finishing treatments, so there is definitely lot of things and also since you are aware that Denim is the fashion product and we are focusing lot on fashion aspects as well and trying to develop more and more relationships with all the brands in the country. There is competition everywhere and company is trying to tide over the situation by making this R&D and new product developments and at the same time it has also to do some evergreen products. So it is a mix of both the aspects and going ahead I think company should do better.
- Shivam Vashi:** Sir GST is more of a domestic issue so, if we have a really good value-added product, i.e. if we are doing some really good export to the branded players, so then this hit could not be so high?

- Deepak Chiripal:** As far as our company is concerned, our bread and butter market is still India and we are predominantly dependent on Indian market so I would say that 7 – 8% is our export but 90- 93% is still domestic.
- Shivam Vashi:** So, mainly we supply to brand or is just to open market?
- Deepak Chiripal:** It is a mix of everything. We are supplying to brands also and we are supplying to open market like dealer trade network as we call.
- Shivam Vashi:** Sir any ratio that you can guide us?
- Deepak Chiripal:** The domestic brands would be about 20% of our sale but 80% would still be in open market.
- Shivam Vashi:** Right. In the first two quarters, the company says around 85% was the capacity utilization and which has now come down significantly to 75% for the year so which of the quarter we really took hit, I mean coming down from 85% in first two quarters to 74% is huge difference?
- Deepak Chiripal:** You know last year has been an impact of GST, which is the reason why yarn sales have increased so company has been focusing on increasing its yarn sale and there has been about 10% reduction in the fabric production capacity utilization.
- Shivam Vashi:** Presently Q4 is the quarter where overall industry view is there is good improvement. In this quarter so why is this struggled that is what I figure out?
- Deepak Chiripal:** Because last quarter also there was GST issues. The whole year had GST issues. So I would not really say that the industry had come out of GST problems, so as I mentioned that selling is not an issue. Selling is still happening, but the problem is liquidity, so company does not want to expose itself beyond a particular credit line that is the reason why we are restricting sales beyond a point.
- Shivam Vashi:** Okay and Sir what would be your actual Denim EBITDA margin?
- Deepak Chiripal:** It is difficult. We have not worked out like that because it is a composite mill, so everything is interrelated, the utilities are interrelated, the spinning capacities are all interrelated, so everything is very much interrelated so as such we are not been able to find out product wise, category wise EBITDA margins.
- Shivam Vashi:** Sir last question is on the yarn. We are still outsourcing around 15% of yarn, that is quite a lot given our capacity enhancement that we have done, so we are still outsourcing 15% given that we have excess capacity than what we require at least in terms of captive consumption is what I am talking about, still is it that we do not have such kind of product or is it the very recent capex that we have done?

- Deepak Chiripal:** We are selling as well as buying, so that is the reason. If we have been making the entire fabric then probably we would not have sold the yarn, so since we are selling some of the yarns which are saleable in the market, at the same time we are buying in turn some of the yarns, which we do not make. Keeping the fabric market trend in line, we are taking such decisions and when we sell yarn normally, we do value addition on yarn and sell it so many times. We also buy from the market, the grey yarn and do some kind of value addition and sell it. So that is also the reason why purchase and sale both have increased.
- Shivam Vashi:** Thank you so much Sir.
- Moderator:** Thank you. The next question is from the line of Thomas Abraham from Karvy Stock Broking. Please go ahead.
- Thomas Abraham:** Sir basically my question has been answered. I think I will just go back in the queue, because it is basically regarding how much of the proportion of the revenue is from the brands and the other to the open market. So I believe 20% to the brands right?
- Deepak Chiripal:** Yes.
- Thomas Abraham:** Sir just wanted to know the revenue breakup with regard to overall FY2018. How much was the revenue from Denim and the other components and also how much was the Denim sales towards brands and to the open market?
- Ashok Bothra:** Around 1000-odd Crore is coming from Denim, 100-odd Crore coming from shirting and 400 Crore coming from yarn sales.
- Thomas Abraham:** Okay. How much of Denim is being sold to brands and the open market in the domestic scenario?
- Ashok Bothra:** 20% of the sale is coming from brands only.
- Thomas Abraham:** Thank you.
- Moderator:** Thank you. The next question is from the line of Abhijeet Anand from AA Investments. Please go ahead.
- Abhijeet Anand:** Thanks for taking my question. Most of the questions have been answered. I got only one question. There has been a sharp decline in the operating margin this quarter, so what is the raw material trend and how do you see the margin going forward during FY2019?
- Ashok Bothra:** As far as this year is concerned we are seeing that the raw material cost should go up and there has to be upward trend as far as raw material is concerned.

- Abhijeet Anand:** At what level the margins can be sustained?
- Deepak Chiripal:** As far as margin is concerned I think it would not be a hit, because a company has lot of cushion as far as the government benefits are concerned, which are bound to realize in this year so keeping those perspectives in mind, I do not think, the performance of company is concerned. Secondly this is going to be industry wise phenomenon, economy wide phenomenon as far as raw material price going up, so company will not be impacted. It will be impacting the entire market and all the competitors and all the players, so I do not think company will tend to lose from this.
- Moderator:** Thank you. The next question is from the line of Navneet Bhaiya who is an individual investor. Please go ahead.
- Navneet Bhaiya:** This is just a follow on for the previous question. Your margins have declined. So just wanted to know whether the market situation worsened from the December quarter to the March quarter because the GST problem would have been there at that time as well?
- Ashok Bothra:** If you see as we mentioned earlier also that we have set a limit for our trade partners and that has crossed in Q4, so we took the conscious decision not to go beyond a limit. Most of you would have already read that majority of mills are running at 60% and less than 70% capacity but we are running at 75%. That is not much bad it seems. Apart from that, we have provision for debtors, it is a bit bad as compared to Q3 because of the Ind-AS provisioning and sales realization has come down and resulting of drop of around Rs.3 per meter. We are hopeful of reviving the market by August or September / pre-Diwali.
- Navneet Bhaiya:** Thank you.
- Moderator:** Thank you. Next question is from Paras Phoravat who is an individual investor. Please go ahead.
- Deepankar Naik:** I do not know if you have already answered that so in the last call you said your debt reduction would be around 60 Crores, so I wanted to know what has been the debt reduction in this financial year and what is your target for the next year?
- Ashok Bothra:** So as of March 2018, our long-term debt is around 439 Crores and repayment will be to the tune of around 65 Crores in FY19, so there is no prepayment.
- Deepankar Naik:** Thank you. That is all.
- Moderator:** Thank you. The next we have a follow up question from Ankit Shah from White Equity. Please go ahead.
- Ankit Shah:** Thanks for taking the follow up. Sir would it be possible for you to share the power and fuel cost for Q4 and full year FY2018?

- Ashok Bothra:** Last year, it was around 91 Crores and this year it is around 120 Crores. The main increase is because we got our spinning capacity installed by the end of January 2017, because of that our fuel cost has gone up apart from that coal prices has also increased.
- Moderator:** Thank you. Next question is from Sumrat Singh who is an individual investor. Please go ahead.
- Sumrat Singh:** Thank you for the opportunity Sir. I just wanted to know during the last quarter conference call, the company had mentioned that due to the backward integration the margin of the company would increase in the upcoming quarters, the Q3 seen in Q4?
- Ashok Bothra:** If you see the moment we completed our expansion we encountered demonetization and GST because of that we could not reach the benefit of expansion, you must have read that Denim market is growing up and expected to rise with the CAGR of around 15% for couple of years so once liquidity is back in the market and with the correction in the demand supply gap margin should also improve.
- Sumrat Singh:** Sir one more question regarding how much subsidy that you are going to receive in the Q1 FY2019 from the government?
- Ashok Bothra:** Annually, around 4 Crores to 5 Crores towards power around 13-15 Crores towards interest. 18 Crores on an annual basis. This is in addition to VAT / GST.
- Sumrat Singh:** Sir regarding the trade receivable trend so we are expecting it the FY2019 Q1 or Q2?
- Ashok Bothra:** Everything will depend on the market situation and if my competitor is extending credit I need to resort to the industry practice but once the market is revived and there is ample liquidity this DSO should come down.
- Sumrat Singh:** That means the current trend is due to the competition, the competitors are basically increasing the credit receivables?
- Ashok Bothra:** Not competition, it is basically liquidity issue, which every industry is facing.
- Sumrat Singh:** Thank you.
- Moderator:** Thank you. Next we have a follow up question from Deepankar Naik who is an individual investor. Please go ahead.
- Deepankar Naik:** Thanks for the opportunity. Sir you had mentioned before that you are looking at value added products so would you like to comment on that if there is a change in your mix and do you see that impacting your EBITDA positively in the next few quarters?
- Deepak Chiripal:** Yes we are working on that and company has already done it in the past and going ahead the