

19<sup>th</sup> August, 2022

<b>BSE Ltd.</b> Phiroze Jeejeebhoy Towers, Dalal Street, Fort, Mumbai 400 001. <b>Scrip Code: 532782</b>	<b>National Stock Exchange of India Ltd.</b> Exchange Plaza, 5 <sup>th</sup> Floor, Plot No. C/1, G-Block, Bandra - Kurla Complex, Bandra (E), Mumbai 400 051. <b>Scrip Code: SUTLEJTEX</b>
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Dear Sir / Madam,

**Subject: Transcript of Q1 FY23 Earnings Conference Call**

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, kindly find enclosed a transcript of the earnings conference call for the quarter ended 30<sup>th</sup> June, 2022 which was held on Friday, 12<sup>th</sup> August, 2022. The same will also be available on the website of the Company i.e. www.sutlejtextiles.com.

The conference call held on 12<sup>th</sup> August, 2022, as per the Transcript enclosed incorporates mainly the highlights of financial results upto 30<sup>th</sup> June, 2022, and other related information which is already in public domain and / or made available / uploaded on the Company's website.

Please take the same on record.

Thanking you

Yours faithfully  
For **Sutlej Textiles and Industries Limited**



**Manoj Contractor**  
Company Secretary and Compliance Officer



Encl: a/a



“Sutlej Textiles and Industries Limited  
Q1 FY 23 Earnings Conference Call”

**August 12, 2022**



**MANAGEMENT:**

**MR. RAJIB MUKHOPADHYAY - WHOLE-TIME  
DIRECTOR AND CFO, SUTLEJ TEXTILES AND  
INDUSTRIES LIMITED**

**MR. UPDEEP SINGH - PRESIDENT AND CEO,  
SUTLEJ TEXTILES AND INDUSTRIES LIMITED**

**Moderator:** Ladies and gentlemen, good day and welcome to the Sutlej Textiles and Industries Limited Q1 FY23 Earnings Conference Call. As a reminder, all participant 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 touch tone phone. Please note, that this conference is being recorded.

I now hand the conference over to Mr. Rajib Mukhopadhyay, Whole-Time Director and CFO. Thank you, and over to you, sir.

**Rajib Mukhopadhyay:** Thank you. Thank you very much. Good morning, everyone, and welcome to the Earnings Conference call for Sutlej Textiles and Industries for the first quarter ended 30th June, 2022. I hope all of you and your families are in good health. Joining me on call today, Mr. Updeep Singh, President and CEO of Sutlej Textiles and Industries Limited and Stellar IR Advisors, our Investor Relations team. We have already uploaded the investor presentation and I hope everyone had an opportunity to go through the same. Let me now take you all through the financial highlights, after which, I will request Mr. Updeep Singh ji to run you through the industry and business highlights for the quarter ended 30<sup>th</sup> June, 2022.

As we all know, that the Indian economy like most countries in the world was impacted by the geopolitical tension, high inflationary environment, increase in input costs. Despite all these challenges, at Sutlej, we saw a robust performance backed by healthy sales and profitability growth, reinforcing the strong fundamentals of the Company.

Now coming to the Income statement, our Consolidated total income for the quarter was Rs 853 crores, which is a jump of 44% as against Rs591 crores for the first quarter of last year, that is Q1 FY22. The improvement in domestic and export demand that we have been witnessing before the inflationary pressure and not withstanding the geopolitical situation, is a primary reason for our improvement in performance. We are hopeful, with several measures being taken to tackle inflation and given the upcoming festive season, our performance in the forthcoming quarters should also be stable, despite the current environment.

For Q1 FY23, our consolidated EBITDA stood at Rs138 crores, which is 16.14% EBITDA margin, which is 329 basis points higher than Q1 FY22, where it was 12.85% or Rs76 crores and by 144 basis points higher than previous quarter, that is Q4 FY22, where it was 14.7%. This growth of EBITDA is primarily driven by volume, higher realization and benefit of operating leverage.

On the profitability side, our Consolidated PAT came in at Rs45 crores as against Rs20 crores in Q1 FY22, which was higher by 123% year-on-year. The profitability would have been much higher than this, however, there was an exceptional loss on account of impairment of Rs23.66 crores, since the company decided to discard the captive co-generation power plant.

On the balance sheet front, there has been a reduction in both long-term and short-term debt, resulting in overall debt reduction of Rs45 crores to Rs900 crores compared to March '22, which stood at Rs945 crores. The debt-to-equity ratio has been constantly below 1 for over five years, and currently it is at 0.78 times, which is also the lowest over the years.

That's all from my side. I will now request Shri Updeepji to share the business outlook and Industry scenario, and then we can open the floor for question and answers. Thank you.

**Updeep Singh:** Thank you, Rajib, and very good morning to all of you, and I thank you very much for taking time out to join this call of Sutlej Textiles, in spite of the fact that this is going to be a longer weekend. And wish you all a very Happy Independence Day, 75th anniversary of our Independence.

At the outset, let me begin the call by reiterating our outlook on the industry. We continue to believe there are positive tailwinds for textile sector although, there are temporary clouds as well on this. On the domestic front, with the efforts of the eminent industry, as well as Government of India in improving the environment in the country and various FTA being signed, coming up, which would be of great help to us. China Plus One strategy is the added benefit. Therefore, we believe that long-term growth prospects remain unchanged. The domestic demand on Home Textiles is expected to grow in India over the period of time.

As you're aware, like most industries, our industry works best when there is a relative stability in demand and supply dynamics at both, sales as well as the cost. While global happenings have impacted these sentiments on the demand side, on the input cost, after a year of witnessing strong prices of cotton, in the new season with an easing of supply chain issues, and not in this season, we are witnessing a downward trend, which was what we were witnessing about 15 days ago. But now, again, we see a little upward trend in the cotton prices, where, even the futures today range in and around 104 for December.

While we are confident about the opportunity in textile sector over the medium-term, we are aware that there could be some challenges in the short-term due to volatility in the raw materials, because volatility really is something which is not so good for the business, even if at the cost of the prices.

So, Sutlej being a trusted brand in yarn segment has been able to capitalize on the opportunities which is evident from the results. In the view of increasing demand of cotton polyester brands, the cross multiple categories of end use, there is a market potential for blended grey yarn as well, in both in domestic and exports. And we see that although for the next few quarters, we are going to witness some sort of volatility in the prices as well, but I think we are confident that we at Sutlej should be able to sail through well in the coming quarters as well.

So, we believe that with all these positives for us, Sutlej is well placed to continue the strong performance and add value to the stakeholders. I think with this, I can open the floor for questions, so that we can have better discussions when we are having this question-answer session.

**Moderator:** Thank you. We will now begin the question-and-answer session. The first question comes from the line of Rakesh Shah, an individual investor. Please go ahead.

**Rakesh Shah:** So, I just wanted to know one thing, that many other companies compared to yours have not reported good numbers, whereas you all have reported excellent numbers. So, why are we seeing this traction? Like why are we seeing this traction and can this margin profile be continued in the coming quarters as well?

**Updeep Singh:** Thank you, Mr. Shah. This is a good question. Here, I would like to say a couple of things. Here I think we being in the dyed segment, dyed yarn, both for synthetics, as well as on cotton, we have seen that in the first quarter of this fiscal year there was some demand which was riding from the last quarter as well, especially on the synthetic side. So, on synthetics, we saw good profitability as well. Whereas, cotton had been a little slow because of the high prices of the raw material. So being in dyed and being in synthetic as well along with and having a good order book at the beginning of the quarter and during the quarter, I think this has resulted in better performance on the one side of it. And on the other side, we could have better realization as well. Because of little smaller lots, if you look at the utilization in the first quarter, it has been little below the last quarter of the last fiscal year, that is due to, we have been making little smaller lots which could fetch us good realization as well. So, these are the major reasons that our result in this quarter have been better.

**Rakesh Shah:** So, apart from that, can you talk a little more about the CapEx plans just in case if I missed it?

**Updeep Singh:** See, we have a CapEx plan, as it was announced in the last quarter as well, so, we envisage to put up a spinning and dyeing project in the UT of J&K, which was announced in last quarter. So, we are still holding on to that and because it is a little longer gestation. So, we envisage that this would come up only in fiscal year 2025. So, holding on to that, I mean that we are going ahead with that. So, we are just waiting for the land allotment and all that.

As far as other CapEx is concerned, the normal CapEx which is debottlenecking and all that, so, whatever we have envisaged during this year, we will do it, it will be to the extent of almost Rs100 crores. It will be to the extent of Rs100 crores because now certain deliveries of machines have been eased out. So, we envisage that whatever normal capital expenditure in terms of modernization or debottlenecking, we are going ahead with that.

**Rakesh Shah:** So, apart from that, I wanted to know a little bit more on the input costs. So how will that increase in input cost impact your profitability and how are you all tackling it?

**Updeep Singh:** Yes. So, , as I mentioned, during my talk, it is not only the cost, but it is the volatility. So, I would say, major skill what we need to have within the organization is how do we manage the volatility of the raw material as well. If you look at, for example, I talk of cotton. If you look at cotton, if I compare cotton Q1 of last year to Q1 of this year, the cotton (on term basis) one of the qualities has increased by almost 77.3% and another one about 107%. So, that is a jump in Q1 of last year to Q1 of this year. Whereas, Q4 of last year to Q1 of this year, there is a jump of almost 29% to 30%. So, there is a volatility.

Then, again, in the last 10 to 12 days or 15 days, we have seen that the cotton prices are again going up. Today the New York futures stand at almost USD104, whereas the Indian prices are ranging in the range of almost for the Gujarat Cotton, is almost close to INR99,000 to INR100,000 per candy. So, this is again a shift in the cotton prices over the last 12 days. That is on the cotton side.

On the polyester side, we have seen that the prices of polyester have been hovering in the range of say 110, to 120 during these periods. So, that is dependent mainly on the prices of Reliance, which again are somehow linked to somewhere on the CIF prices of imported fiber as well. Whereas in case of recycled polyester staple fiber, we have seen that from Q1 of last year to Q1 of this year, there has been a jump of almost 35%. Whereas, if I compare Q4 and Q1, Q4 of last year and Q1 of this year, there is a jump of only about 3% to 4%. So, this is the volatility on the polyester side as well.

Viscose has remained almost stable during the period. There is an increase of almost, I would say from the last year to this year is an increase of almost 17% and whereas, in case of quarter, last quarter to this quarter is about 6%.

So, the point is, how do we tackle this? So, in case of cotton, luckily, this year our cotton performance so far has been good. We are covered till the end of the season, until such time the new crop comes. For example, in case of North cotton, we are covered till September end, and in case of Gujarat Cotton, we are covered till October, middle of October towards the end of October. So, that has come handy to us that this year we were able to have some of the raw materials as well.

Polyester, I mean, on the recycled side, we are having our own captive production as well. We have recycled polyester fiber. So that also helped us in terms of improving some of runnability of our spinning yield as well by holding on to the good quality and how do we make some changes while making that polyester fiber. So, these are a few things that we were able to do during the year which has helped us to get to this performance level.

**Rakesh Shah:** So, one last question. Can you give me some outlook or guidance on the Home Textile division? How is it looking?

**Updeep Singh:** Yes, see, if you compare the results of our Home Textile division, there is improvement. I don't say that we are we have yet come out of the loss, but there is improvement on performance over the last year, Y-o-Y quarter as well and from the last quarter to this quarter as well, our quality of sales has improved. If you see, even a little lower turnover as compared to quarter four to quarter one, our profit has been bettered.

So, we have been able to get better realization by focusing on the markets like U.S., U.K. and other export market, and also, a little bit on our Indian brand which we launched for cut service, Nesterra, we are seeing good traction as we are launching some more SKUs on this. Today we are at almost 335 stores across India, which we should be able to ramp up to more than 500 to 600, I think 600 by the end of this quarter. So, this is what the plan is and that we should be able to do much better in the coming quarters on the Home Textile product. So, we should get positive in next one or two quarters itself. So, we see some good business for Home Textiles and we are quite gung-ho about it.

**Moderator:** The next question comes from the line of Ritesh from Girik Capital. Please go ahead.

**Ritesh Poladia:** Sir, my question is on your new Greenfield plant at Jammu. Sir, how much land is acquired and in what area this phase would be done?

**Updeep Singh:** The land, if I get your question right, you wanted to know how much is a land parcel we are looking at or we are acquiring?

**Ritesh Poladia:** Yes.

**Updeep Singh:** Yes. See, government, I think it should be allotting to the extent of almost 63 acres of land.

**Ritesh Poladia:** Okay. And this phase will be covering all the 63 acre or there would be surplus land available.

**Updeep Singh:** No, no. This project we'll be using about 35 acre there will be land available for expansion in that, because that is the very basic which we need to have, because we cannot have short of space only for this project. So, we'll be having the extra space as well for the future expansion in this project as well.

**Ritesh Poladia:** Sure. Sir, my basic objective to ask this question was, if I see your CapEx amount INR900 crore. For 90,000 spindles and dye house. So, it looks quite aggressive CapEx plan So, is there any common utilities you are setting up for the future expansion which is included in this amount?

**Updeep Singh:** Yes. Now, I answer your question. Number one, the CapEx if you divide per spindle, it will look very high because one, part of this project is on the mélange yarn. So, the cost of the mélange yarn is a little higher, because you have doubled the back process, I mean for the ring frame, for the ring spinning for the same production, that is one.

Second, we are putting up a dye house. Now, this dye house is a fiber dye house, which is included in this CapEx, which would cater to this project as well, as well as some extra capacity to be given to others. So, that is the Dye House, We have also envisaged that this would be a zero-discharge project. Because nowadays everywhere governments are going in for zero-discharge. So, we envisage that Capex as well within it. So that is the reason it looks a little higher as compared to a normal spinning mill.

**Ritesh Poladia:** Sure. So, what would be the capacity of this dye house?

**Updeep Singh:** This dye house on cotton fiber would be to the extent of almost, because it depends on the fiber type, so, it will be to the extent of almost 20 tons per day to 25 tons per day.

**Ritesh Poladia:** And these 90,000 spindles of mélange plus gray yarn, what would be the --- say on optimum basis, what would be the output?

**Updeep Singh:** I mean, the total output of this would be to the extent of 50 tons plus 25 tons.

**Ritesh Poladia:** It would be 75 tons per day.

**Updeep Singh:** Yes.

**Ritesh Poladia:** And the dye house would be 25 tons per day, but you would be doing some job work for the initial time?

**Updeep Singh:** Yes. That could be a possibility.

**Ritesh Poladia:** Okay. And this plant would be commissioned by the end of FY25, right?

**Updeep Singh:** That is what is being envisaged. Yes.

**Ritesh Poladia:** Okay. So, what would be the spend in this year, FY23 for this plant?

**Updeep Singh:** FY23 in this plant, we envisage a spend of almost INR100 crore, including land.

**Ritesh Poladia:** INR100 crore including land. So, FY24 and '25 would be the big chunk of investments?

**Updeep Singh:** Yes .

**Ritesh Poladia:** Sure. And is there any state incentive to set up in Jammu and Kashmir?

**Updeep Singh:** Yes, there is.

- Ritesh Poladia:** Can you please elaborate?
- Updeep Singh:** As per the policy 300% of the eligible plant and machinery amount, GST equivalent is exempt for 10 years.
- Rajib Mukhopadhyay:** For 10 years,
- Updeep Singh:** Yes.
- Ritesh Poladia:** Okay. So, in terms of incentives in amount, approximate amount, how much it will be?
- Updeep Singh:** See, it will depend, what is the eligible machinery. We are waiting for that list. So, eligible machinery, whatever the cost is, for example, if it is eligible machinery say INR400 crores, so, we will have INR1,200 crores of amount for 10 years.
- Ritesh Poladia:** So, INR1,200 crore amount for 10 years. So, over 10 years, the state government will reimburse that much amount to you?
- Updeep Singh:** Yes, this is basically, this is a central policy for the state.
- Moderator:** Next question comes from the line of Satish K, an individual investor. Please go ahead.
- Satish K:** So, congratulations on a good performance, sir. I think when the rest of the industries are struggling, I think you're done fairly decently. So, congratulations for that. And sir, we just wanted to understand on the Home Textile business. What is the domestic market looking like? And just wanted to understand, what is your, the cycle of your purchasing and I mean, the purchasing by your customers in anticipation of a good festival season? Does it happen in advance? Are you seeing any traction on that front? And I think to start with, that would be my first question, sir
- Updeep Singh:** See, on Home Textile, I think upholstery and drapery and what we have seen in recent past, there is some direction as well in the real estate. So, we see that Home would be doing good in the next few quarters in India as well. As far as the festive season is concerned, yes, we see a lot of traction coming up because it has been quite a bit of time, almost two years now. This Diwali we expect that during this festival season, the Home textile, especially on the brand side should do better. We are envisaging that. Buying would happen only during the Diwali season only. So, I don't expect that buying cycle will be little advanced. I think that will happen only towards the end of September, October.
- Satish K:** Okay. And would that require us to carry more inventory?
- Updeep Singh:** No, not that, because well in our B2B business, so, all this production is going on now. Because when they will have to launch at the store, so that production should leave us by September. So, we won't carry --- because our B2B business will wait to. So, we don't expect to carry too much inventory on that during this season. However, on the cut service front, we do have to carry inventory. So, that definitely, I mean, when we are adding books or what you say, or more collections, so, some inventory, we adding are up on that, to service the cut service plant, where we need to ship within 48 hours.
- Satish K:** Okay. And this will show up in the September numbers then?
- Updeep Singh:** That should be.
- Satish K:** Okay. And sir, could you throw some light on this RODTEP ? Incentive Scheme? I mean, what is what is happening there? Because I think last year, the scripts are trading at a discount. So, what is the scene now? And is there any benefit that is expected to accrue to us?
- Updeep Singh:** Yes. See, we in our case, RODTEP, you're absolutely right, that few months back, we were trading at a discount of almost 16%, 17% or 15%, anywhere between 15% to 17%. Now off late, this discount has come down. So, the latest figure I have, some offers, where our people were discussing, is at a discount of almost 5%- 6%. So, I think this should hover in this range. We envisage that going forward with more of CapEx also coming in, some imports also

coming in, this discount should not go below the short-term, below 10%. And we should have, because of our exports, we should have this benefit going forward as well.

**Sachin K:** Got it, sir. And sir, since you brought up exports, I just wanted to understand, you know, I think there has been some volatility in the exports, obviously, because of the global situation. But on a steady-state basis, what do you expect for what is your aim to keep your export level at?

**Updeep Singh:** See, we would like because there are certain pockets and segments. So, we would I mean, while being very much abreast with the geopolitical situation, we definitely would like to increase our export. But then we would like to play a little cautiously. For some of the countries where there are issues in terms of currencies as well, we are playing loosely there. So, we don't want to just sell, I mean in such countries. So, I envisage that our export, because there are certain countries where we are quite strong. Both in, in some countries we're strong on the melange cotton as well. So, I expect that our export would remain in the vicinity of say, 50% of our turnover.

**Sachin K:** Currently you are at around 45%, I think, right?

**Updeep Singh:** Yes. In that area. Sometimes as far as the production capacity is concerned, like for example, we have allocated 40% domestic, 40% export and that is oscillating. So, in this quarter, yes, it could be a little less of export because of the few countries where we wanted to be a little cautious on. So, it ranges in between, say 45% to 50%, So, we would remain in that category. I mean, that range.

**Sachin K:** Right. And sir, I think while you've given some color on this before, I think one of the previous callers, but if you could just reiterate what is your general outlook for the sector? Because I think cotton prices in your company, because it's a output as well as an input, how do you see cotton prices impacting your overall operations? Because I think stability is something that most investors like to see, and I think from that perspective, the cotton prices have been fluctuating quite a bit. So, any thoughts on that? What is your outlook?

**Updeep Singh:** Yes. See, as far as market outlook is concerned and I would say, first I'll talk on the market side, on the demand side. See because of fears in USA demand has shrunk in all international market. This certainly may create some challenges in the upcoming quarters. But at the same time, , we see that there has been less buying in cotton over the last two quarters. Now, even the retailers would like to get into this and the brands, because their pipeline would have dried by now and at this point of time, the cotton prices have again started moving up for the rest of the season. And we expect that with the new crop coming in, there will be some stability in the cotton prices, although, those cotton prices would not go to the levels which we have seen during years.

But definitely we envisage that with the new crop coming in and because if you look at India, Indian sowing is expected, the area under cultivation is expected to grow by almost 6.7% progressively as on date what we see on the sowing side, and also the crop is envisaged at almost about anywhere between 352 lakh to 355 lakh bales as against what information is there that we had about 315 lakh bales in the current season.

So, I expect personally, that the cotton prices may stabilize but then we'll have to wait till the new crop arrives. So, it will be very difficult for me at least, to say that how the cotton behaves in the intervening period till such time the new crop comes.

**Moderator:** Next question comes from the line of Ritesh from Girik Capital. Please go ahead.

**Ritesh Poladia:** Sir, what is the scheme called, I did not ask that, for the expansion of the Jammu? What is this incentive scheme called for this Jammu Greenfield?

**Updeep Singh:** Incentive Scheme. Means this is an incentive scheme from central government, the J&K package.

**Ritesh Poladia:** Okay. And this 300% is GST reimbursement. So, would that include our input tax also?

**Updeep Singh:** That's right. That is only state which gives that.



- Moderator:** Next question comes from the line of Nirav Mehta, an individual investor. Please go ahead.
- Nirav Mehta:** I have a few questions. How does the demand look like in mélange yarn for FY 23? Second one is, what is the average realization for spinning yarn, knitting fabric and woven fabrics? And I will take the few other questions in the follow up questions.
- Updeep Singh:** Okay. So first, to answer your question, how's the demand on the mélange yarn? See, we begin this year, this fiscal '23 with little subdued demand on mélange yarn because of the cotton prices, because part of the cotton prices were rising, so, people were waiting. And then again, the cotton prices were coming down, then again, people were waiting that it will go further down, . So, in the process, the demand for cotton yarn especially, the melange yarn was hit a bit.
- In the fiscal '23, we do expect that cotton mélange yarn should pick up in next quarters, maybe in quarter three little bit more, because by that time your new cotton crop would be out. So, I do envisage that the mélange yarn is going to stay because this is catering to the fashion. So, we do expect that we should be having good mélange yarn demand in this year. This is a temporary phase because of the cotton prices that we have seen that the slowdown in the mélange yarn segment as well.
- Luckily if you ask me, we are one of the few mills, we are running our full capacity on mélange yarn. So, we do envisage that we are will be able to sail through this year on the mélange yarn as well. So, we do expect good business going forward as well.
- Your second question was on?
- Nirav Mehta:** Sir, average realization on spinning yarn, knitting yarn and woven?
- Updeep Singh:** So, in case of yarn, our average utilization this quarter stood at INR307 per kilogram, as compared to INR267 in the corresponding quarter of last year.
- Nirav Mehta:** Okay. . I have one last question, if I may. As per the presentation, the yarn production capacity is operating at 95% with 4.21 lakh spindle. So just wanted to know why when the company is expecting to operate at 100% capacity and what would be the total spindle for FY23?
- Updeep Singh:** My dear friend, if you know about the spinning industry, and especially on a dyed, I don't think any mill can operate at 100%, because you have to change the lots as well. So, in gray yarn, you can expect somewhere in the region of 97%, 98%, but dyed yarns spinning at 100% is something, you will be very glad to know how do we run it, but I expect that we can go up to 94%, 95% because we have to change the colors and again the lots. So having full utilization is not possible in spinning industry.
- Moderator:** As there are no further questions, we have reached the end of question-and-answer session. I would now like to hand the conference over to Mr. Updeep Singh, President and CEO for closing comments.
- Updeep Singh:** Ladies and gentlemen, thank you very much for attending this call for Sutlej textiles and Industries Limited, and I hope that we have been able to deliver to stakeholders in this quarter, and we do hope that our teams will keep on delivering the results going forward. And also, the impetus given by Government of India, as well on the textile industry, and also, I know that at the moment there is little clouding and otherwise some sunrise industry for India now for a few years. But we do envisage that we should be able to do better, and also maintain high standards of quality as well. And we run our bills with a high standard of safety as well too. And I do hope teams will strive to give our stakeholders the better value in the quarters to come. And thank you very much once again for joining this call. And I wish you all once more, a very happy and wonderful, and I hope that we are all able to celebrate in the best possible way, this 75th Independence Day. Thank you very much.
- Moderator:** Thank you. On behalf of Sutlej Textiles and Industries Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.