SUTLEJ TEXTILES AND INDUSTRIES LIMITED
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CIN. : L17124RJ2005PLC020927

16th November, 2024

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

Dear Sirs / Madam,

Subject: Transcript of Q2 & H1 FY25 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 and half year ended 30th September, 2024 which was held on Wednesday, 13th November, 2024. The same is also available on the website of the Company i.e. www.sutlejtextiles.com.

The conference call held on 13th November, 2024, as per the Transcript enclosed incorporates mainly the highlights of financial results upto 30th September, 2024, 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.

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

MANOJ VINOD CONTRACTOR
Digitally signed by MANOJ VINOD CONTRACTOR
Date: 2024.11.16 16:44:32 +05'30'

Manoj Contractor
Company Secretary and Compliance Officer

"Sutlej Textiles and Industries Limited

Q2 and H1 FY '25 Earnings Conference Call"

November 13, 2024

MANAGEMENT: MR. S. K. KHANDELIA
ADVISOR TO EXECUTIVE CHAIRMAN
SUTLEJ TEXTILES AND INDUSTRIES LIMITED

MR. RAJIB MUKHOPADHYAY
WHOLE-TIME DIRECTOR AND CHIEF FINANCIAL OFFICER
SUTLEJ TEXTILES AND INDUSTRIES LIMITED

MODERATOR: STELLAR IR

Moderator: Ladies and gentlemen, good day, and welcome to Sutlej Textiles and Industries Limited Q2 and H1 FY '25 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 star, then zero on your touchtone phone. Please note that this conference is being recorded.

This call may contain some of the forward-looking statements, which are completely based upon our beliefs, opinions and expectations as of today. These statements are not a guarantee of our future performance and involve unforeseen risks and uncertainties. The company also undertakes no obligation to update any forward-looking statement to reflect developments that occur after the statement is made.

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

Rajib Mukhopadhyay: Good morning. Good morning, everyone, and welcome to the earnings conference call for Sutlej Textiles and Industries for the quarter and half year ended September 30, 2024. I trust you are all doing well. With me on the call today is Mr. S.K. Khandelia, Advisor to Executive Chairman; and Stellar IR Advisors, our Investor Relations team. We have already uploaded the investor presentation, and I hope everyone has had an opportunity to go through the same.

Let me start the call by giving you some financial highlights of the quarter, after which Khandelia ji will give the business highlights.

While the textile industry continues to be a bellwether of the Indian economy providing employment and generating crucial foreign exchange, the past few quarters have seen a lot of volatility both in terms of prices of yarn as well as demand of yarn and home textiles.

A combination of geopolitical events ranging from 2 major conflicts: delays in supply chain and inflationary pressures in major demand centers, had a dampening effect on the sector. On the domestic side, we have not seen a major upside despite the festive season. We are hopeful that the next year will be better for the industry and that the improvement should start showing towards the end of this fiscal.

Our spinning capacity used in quarter 2 was 97% against 93% in the previous period. For H1 FY '25, our consolidated total income came in at INR1,354 crores, gross profit improved by 13% to INR 586 crores, and EBITDA came in at INR 41 crores for a loss of INR 25 crores in the same period last year, which is H1 FY '24.

For Q2 FY '25, our consolidated total income came in at INR 690 crores. Gross margin was at 43%, which was higher by 11% on a year-on-year basis. We continue to work on cost optimization and strengthening the balance sheet. We have consistently maintained our debt equity ratio below 1. Presently, it is at 0.86. EBITDA has improved to INR 16 crores from minus INR 30 crores or loss of INR 30 crores. PAT margins for quarter saw an improvement of 397 bps, respectively, on a year-on-year basis.

Those were my opening remarks. I will now request Khandelia ji to provide you the business update.

S. K. Khandelia: Thank you, Rajib, and thank you all for joining us on this conference call today. The current outlook for the global economy is marked by several conflicts that have the potential to disrupt global trade and also have had a dampening impact on local economies of traditional textile markets.

The revival of demand in the European Union, UK and US has been slower than anticipated, and the domestic market continues to be cautious with subdued demand despite a good monsoon, improved rural incomes and festive season.

Domestically, the consumer behaviour around clothing and garment purchases is shifting from the use and dispose mindset to one focused on longevity, driven by growing awareness of sustainability. This shift has decreased the frequency of apparel purchases.

Apparel and garment purchases are now considered discretionary, often taking a back seat to high-demand items like the latest electronic devices, vehicles, traveling, hospitality and restaurants and other consumer products. This preference in shift has led to reduced demand in textile sector as spending priorities have moved away from clothing.

At Sutlej, our strategic investments in fungible capacity and our capability to produce different types of spun yarn from any fiber or blends thereof in any form for any end use have helped us weather some of the headwinds in the sector. We are following the emerging trends and developing new value-added yarns for apparel and non-apparel use to stay ahead of the curve.

We are also continuing to focus on optimizing our costs and improving efficiencies further. We are constantly in touch with our distribution network and are confident that our strong balance sheet, comfortable leverage and customer-centric approach will hold us in good stead.

Looking ahead, we are optimistic about the long-term prospects of the Indian textile industry and see significant growth potential. Our commitment to enhancing shareholders' value remains steadfast, and we are well positioned to capitalize on new growth opportunities while navigating current challenges.

With that, we can now take your questions, please. Thank you.

Moderator: First is from the line of Amit Agarwal from Leeway Investments.

Amit Agarwal: Sir, my question is regarding our employee cost compared to the turnover is around 15%. And it has been like this for the last 3-4 years. Whereas all of the textile companies or just yarn companies have the price cost 10% of the turnover. So that makes our company very inefficient compared to them. So during the bad times, we have bigger losses. And during good times, we have lesser profit. Can the management throw some light on this particular thing because this is -- we have 15% whereas these companies are having employee cost 10% of the turnover.

S. K. Khandelia: Thank you. You are very much right that our employee cost is high as compared to the peers. It may not be with spinners. But still it is high, even for dyed yarn spinners. Because in dyed yarn spinning, the employee cost is always high as compared to grey yarn spinning because the level of automation cannot be that high.

Secondly, definitely, our cost is higher. We are working on that. And we are trying to rationalize our workforce. And the main problem which has been in the last 2-3 years because of the bad market conditions, the specialty yarns where we used to operate mainly and which used to give us higher revenue have not been there. And due to that, we are basically manufacturing most of the things we have to manufacture many times, commodity yarn. And even we have to manufacture grey yarn, whereas our entire strategy is for the dyed yarn. But nevertheless, we are working on it continuously, and our people are on the job. And hopefully, going forward, you will see a definite reduction in our employee cost as compared to revenue.

Other part of the story is that we are trying to improve our revenue also. In the past, you have seen that some of the capacities were not fully utilized. But now we are fully operating, and that will also add to our revenue. So, in terms of revenue, that percentage will come down. So definitely, your point is valid, and we are working on that.

Amit Agarwal: Should you expect the changes in the next 1 year, or it will take more than that?

S. K. Khandelia: No. In one year, you will definitely see the changes. In one year, you will definitely see significant changes.

Amit Agarwal: Sir, you said because we are into dyed yarn and the market right now is very bad compared to the other yarns, so is this a permanent change in the trend? Or it's just a short-term phenomenon? What do you think?

S. K. Khandelia: I think though it is a short-term phenomenon, but we are changing. We are working on changing our product mix also to the more profitable, more value-added yarns. And based on the emerging trends, which I mentioned in my opening remarks, that we are trying to divert some of the capacities to different types of yarn, new types of yarn, and that will add value to our revenues as well as to our profits and will reduce our employee cost.

Similarly, we are also working on various technologies that will reduce the employees cost, new type of technology. We are working on that. So definitely, in the next 1 year, you will see the improvement. And going forward, it will be a continuous process, and we will be there. We are trying to be better than the industry norms for the particular type of yarns.

Amit Agarwal: So, should we expect the change in modernization of the plant? Or is it because that you'd be laying off some people?

S. K. Khandelia: No. Our plants are fully modernized that way. We are looking for some sort of wherever the automation is further possible. Secondly, we are making the use of artificial intelligence, Industry 4.0 and such type of new technologies, where the processes can be automated to some extent. And in textile, a lot of turnover is happening, whether it is the workers, whether it is the staff. So we need not to lay off anybody. Automatically, the size is coming down.

Amit Agarwal: Okay. And my second question and last question is regarding PET projects. Sir, we had -- we spent INR200 crores on the PET project in the last -- five years back or four years back. So what is -- sir, I haven't found improvement in margins just because of that project. So is there any utility of the project? And how much turnover it generates internally?

S. K. Khandelia: So far this PET project is concerned, it was basically put up for the captive use because we have to maintain the quality of our ultimate product that is the yarn. That was the basic purpose. And it is basically the cost which gets neutralized, not much. But of course, what is happening now because of the use of PET bottle is increasing sustainability and other issues. So there is an inverse ratio in PET bottle in the fiber prices, which we can get from the outside also.

So now we are working on making it more branded type of fiber where we can get more value for our fiber. It is not necessary that we will use our fiber for our use only. We will sell it in the market also by brand, but we are working on that because the traceability has to be there and it has to be called green fiber worldwide, and then we have to add with the value partners so that ultimately when the garment goes, they can say it is a Sutlej green fiber, which is there, and they can press it. So we are working on that. So that will improve our profitability of this division.

Amit Agarwal: So this is a recycling unit, sir? Can you throw some light, how many textile companies have this recycling unit in-house except us?

S. K. Khandelia: These are not easy initiatives. I think Reliance Gold, you must have heard them now. Reliance also has recycled fiber, which they call Reliance Gold, and they have those type of blockchain technology and other things. We are working on that. And that will take some time, but we are on that line that how to make it more specialized fiber. So we are working on that.

Amit Agarwal: And could you throw some light on the fiber we are -- on the textiles we are selling in the market, fiber like...?

S. K. Khandelia: No, no. Fiber can be sold in domestic market as well in the export market. We have already started selling some quantity (500-600 tons per month in the market). But these are the normal type of fibers. We are making some value-added, especially some of the fibers like dyed fiber, which we are also using and selling in the market also. But our ultimate goal is to make it a branded sustainable fiber like Reliance Gold.

Amit Agarwal: Like Reliance Gold or something like Decor, right?

S. K. Khandelia: Yes, that will add much value to this. But that's a long process, but we are working on that.

Amit Agarwal: Are we planning to open our own stores in the future, like 2 or 3 years down the line?

S. K. Khandelia: No, we don't have any idea but we will have a value chain partners up to garment level, and they will be using this fiber, and we will be doing that.

Moderator: The next question is from the line of Kiran from Table Tree Capital.

Kiran: Sir, just wanted to understand from a strategic perspective. In our presentation, we basically say, look, yarn is going through difficulty. Even the coming few months, there is going to be difficulty. We are hearing the opposite commentaries on the garment players. They're basically saying, look, we have -- inventory channel is done. We are seeing a lot of demand and so on and so forth. So if you could just tell us how does this work, right? I mean if garment players are probably trying to do well over the next few quarters, shouldn't yarn also do well? I mean how do you see that?

S. K. Khandelia: Yes, of course, ultimate is the garment. Ultimately what the consumer is buying is the garment. So if the garment does well, definitely yarn is going to do well.

Kiran: Got it. I mean I was just disconnected between the commentary that we had in the presentation, sir, saying there is no good outlook as well for the coming few months. So that's why I wanted to get your thoughts on why you think so.

S. K. Khandelia: See, there was commentary because that is more basically the visibility which we have right now. But personally, I am of the opinion that with the changes which has taken place in the world, say, US Presidential Election or anything, and I hope that the ongoing conflicts should get down to some extent. And naturally, China is also improving that way. So world economy should improve.

And all these things will add to the demand because ultimately inflation has also to come down everywhere whether it is in India or USA. In USA, something has come down. Interest rates are coming down there. In India also, it will start coming down. People have more of disposable income. Once they have it, the demand will emerge. Ultimately, there is a cycle. So ultimately, I think ultimately it has to improve.

Kiran: Got it. Sir, any positive impact from the Bangladesh crisis for yarn players and specifically for Sutlej kind of players who are both in man-made yarn as well as the polyester yarn?

S. K. Khandelia: So far, we are concerned, we are a major exporter of specialty melange yarn to Bangladesh. So that way, during this quarter, we were impacted. And the current quarter also, we are very cautious to whom to sell, where to sell and how much to sell? And we have to manage our risk also. So that has impacted us in second quarter as well as in current quarter, some impact is there.

And on the other hand, in India, the problem is that most of the garment manufacturers are having small capacities. Whereas the global retailers want the bigger capacity, but still 9%, 10% orders has increased with the domestic garmenters in recent months. And that way, we are supplying to them also.

To that extent, it is a plus point. But the major impact has come from the Bangladesh, but all factories are running, payments are coming, sale is happening because their major earning is foreign exchange earning only from the garment. So ultimately, things will further improve there, and it should be the normal.

Kiran: Got it, sir. One last question then. From a man-made -- not -- sorry, the cotton yarn and so on and so forth, not the polyester yarn, but the cotton yarn, seemingly, there's a massive cotton crop this year. Do you see yarn prices falling further because our prices are intricately linked to cotton prices? Because of the bumper crop in cotton this year, right, from April onwards, do you see yarn prices falling further?

S. K. Khandelia: So basically, it is because of the less demand of the yarn and ultimate products. Cotton crop is almost likely to be at the same level this year also, last year also, the cotton crop in domestic as well as international market was sufficient to take care of the requirement. But actually worldwide, the demand of yarn and related products of cotton and cotton blended, whatever it is, were less. And still the demand has not yet picked up that way. So even in the current -- despite the season being -- fiber rates are not improving. So until unless demand improves of the yarn and downstream products, the cotton prices are likely to stay range bound.

Moderator: The next question is from the line of Ankit Shah from KS Investments.

Ankit Shah: Thank you for the explanation on the yarn pricing. I have a few other questions related to margin. So what do you anticipate as the new normal margin range going ahead?

S. K. Khandelia: Earlier, the normal margin rate used to be 13-14% in yarn. In recent times, it should be around 11-15%, but depends upon the types of yarn. We are working that we should have a specialized yarn portfolio where we can have the higher EBITDA. And still there will be some commodity yarns where the EBITDA level will be less. So I think the EBITDA level should be not less than 12% going forward. That should be the minimum requirement which we should have.

Ankit Shah: Okay. So 12% you will have...

S. K. Khandelia: In the past, we used to have 14%, 13% EBITDA, you must have seen that.

Ankit Shah: Right, right. Okay. And sir, any growth projection on the bottom line as well?

S. K. Khandelia: Yes, of course, we see whatever value-added yarns we will manufacture, we will add to the bottom line also. Our main focus is on both, top line as well as bottom line. Bottom line becomes more important for generating funds for growth and other things. And we always keep very tight control on finances. So of course, our bottom line will improve going forward, definitely, I hope that because we are working on so many value-added products.

Ankit Shah: The reason behind asking was that we are maintaining our debt-to-equity ratio below 1, so finance cost wouldn't increase further?

S. K. Khandelia: No. We should not over-leverage. Had we overleveraged earlier, had we put up some capacities and the type of the things which we have witnessed, it would have eroded our position. But definitely, not only because of any bear market situation. Normally, we have been making investment in bear market situation, but visibility has to be there.

Bear market condition is the right time to make investment, but the visibility has to be there. Then the things are changing worldwide. What sort of technology, what sort of products and what sort of things which should fit in our overall scenario of the products and other things and market capabilities and all those types.

We are evaluating all this with great detail. But we are always open to make investment. Of course, we will manage our finances within the limits. We will not overleverage, but if required and visibility is there, we can do to some extent. There can be many resources. The resources are not the issue.

Ankit Shah: Right. Okay. Understood. And also I wanted to ask on the brand called Nesterra, how has been the market presence in the last quarter? Has it increased or how is it?

S. K. Khandelia: So far, we have launched 36 collections, and this year, 12 collections are being launched. Normally, 60 collections should be in the market, which takes about 5 years' time. But we are seeing traction in our Nesterra. Recently, we have strengthened our retail team also.

And we have added some good retailers also. So, month after month, our Nesterra sales is improving, but not to that extent which we thought it would be. It has to do something with the market conditions also because spending by the people is not coming to the level which we expected. But definitely, I am hopeful that Nesterra will be a brand to reckon with, going forward.

Ankit Shah: Okay. And my last question on capacity utilization. So how much is the utilization currently for manufacturing units?

S. K. Khandelia: Currently, it is 100%. And last quarter, average was 97%. And before that quarter, it was 93%. I hope we will continue to run that 100% capacity as we used to do earlier.

Moderator: The next question is from the line of Viraj Mehta from Enigma.

Viraj Mehta: Sir, we did significant capex over 2022 and '23, and even '23 and '24. A part of it was maintenance, but with the added capacity, what is the peak revenue? Right now, you're saying 93%. So is it fair to assume that there is not much room to grow from here?

S. K. Khandelia: We have to see the profitable growth, not only the topline growth, we have to see the bottom line. Our present capacity utilization is 100%. Last quarter, it was 97%. And previous quarter, Q1 '25, it was 93%. Because of bad market conditions, we had accumulated stock. That's why we reduced unnecessarily.

So, we have never stopped the spindles, but some spindles were stopped earlier. Now we are running 100%. Second thing, we are basically in the value-added segment, which has not been doing well. And we don't want to go in commodity at this point of time because we want to remain different from the herd. So we are looking for different things, may be some value-added yarn, different technologies, different end products. We are looking to that.

So we will add capacities, but not necessarily in spindles. It may be in spindles, it may be in air jet spinning, it may be an open end spinning. It may be something specialty or may be something else or may be something downstream, may be knitting or something like that. We already have some portion, trial knitting machines, but we may add that. So these options are open and we are examining all these options. As soon as the visibility -- little visibility is there, we will start again investing in the building capacities.

Viraj Mehta: No, I understand, sir. But what I'm trying to say, in spite of change, and again, I don't understand yarn business as intricately as you do and you run the business. All I'm trying to understand is from an outsider perspective, you say you are in niche yarns. But I don't understand what is niche because we make less money over a cycle, not in 1 year, but over a cycle, we make less money than most of the peers of our size. So how is it niche? What is so specialized because we don't even generate -- forget 12% return on capital, but we don't even generate return on debt over a cycle. So how is the business making sense to the management to keep putting more and more money in the business?

S. K. Khandelia: You're very much right. Last 2 years have been very, very abnormal. And see the history of the textiles or say 10 years down the line and 10 years ahead of the line, specialty will always be in play. And we are looking to the emerging trends, and we are changing specialty also.

Say melange yarn, which everybody cannot manufacture. We have to see that entry variant. Grey yarn, if I increase the capacity, that is not going to help me. Second thing, everybody has its own strength and weaknesses.

For somebody who is in the downstream, say already in the fabrics, he can add the capacity in the fabrics. If I will start adding the capacity in the fabric at this point of time when the visibility is not there, that means they will fire me. So we have been looking to the sportswear segment. That is a new type of segments we are looking for.

Viraj Mehta: No, no, I'm not saying that you add capacity, sir. Sorry to hog on this a little bit. But if you look at last 4 years, we have done a capex of INR500 crores. And we have not generated cumulative that kind of profit for -- cumulative profits of our last 10 years is that much. So what I'm unable to understand is how do we derive any confidence to keep doing capex and keep doing this business, where over a 10-year cycle, we are not able to generate even return on debt investment kind of return.

S. K. Khandelia: I will explain to you. In 2016, demonetization came in. In 2017, GST came in. Most of the business earlier used to be in the decentralized sector. So that was the point when the export incentives were reduced because of the introduction of GST. Then there was the time when the pandemic came in.

And then after that, after 1 year, if you will see, there has been a huge profit to us and the huge bottom-line and top-line. Not only us, many people in the industry have done that because the post-pandemic demand was there. And there has been huge stocking by the retailers, so that backfires the destocking, they have been destocking.

So because the 5 years' time, if you say the 10 years, it is not correct. If you will go beyond 5 years, so we are fully aware of what you are saying. You are 100% correct. And we are hopeful, and we have the market research, market feedback, we have exports, we have domestic, we have apparel, we have non-apparel. So all sectors, and we have so much different type of capacity. So every sector never used to do bad like this.

And since our expenses are high, because dyed yarn expenses are higher as I explained to one of the questions. So because of that, there has been unusual situation, and that is not likely to continue forever. And whatever changes are required, ultimately we need to earn profit to the excitable numbers. We should sustain our business at 12%-13% EBITDA. So we are very cautious about that, and we are working on that. And your point is very valid, and we are very aware about that and working on that.

Moderator: The next question is from the line of Jishnu Srivastav from SSB Digital.

Jishnu Srivastav: I have two questions. The first one is does the company have any thought process on exploring into newer geographies? And the other one is, how do you see the domestic textile market evolving with rising disposable income and shifting consumer preferences?

S. K. Khandelia: So first, let me take the global opportunities, which we are seeing in geographies. We have been continuously evolving different markets. Textile industry is such an industry which has been moving from one country to other country. Initially, if you say it started from Japan, Japan to Thailand, Thailand to Indonesia, Indonesia to India and then to other countries, now it is moving to African countries. So our ultimate end product is the garment and such type of things.

So that way, since we are in the yarn business, our yarn geography also keeps on changing. Then we have added non-apparel products. Their geographies are developed countries, like, say, the automotive, textiles, then there are different type of textiles, non-apparel and industrial use textiles. In that, we are moving gradually. And that keeps on changing the geography. So that is a continuous feature and continuously evolving, and we continue to monitor and we have a large export team, and one-third of our material is being exported.

In case of domestic also, there are changes. Changes is the way of life and what is dynamic. So in India also we are noticing that people now want comfort type of fabric, majority of them. Of course, disposable income and preference for discretionary spending is there because cloth is not that important now. In marriages earlier, people used to wear suits, now everybody has different choices. So changes keep on happening.

It is not today. It has been happening all the time. So changes will continue, and we are making ourselves, our processes, our marketing, our centers, our end users keep on changing as per the emerging market trends that we are doing. So, we are moving more towards non-apparel, not only for apparel.

In apparel, we are adding the comfort. The comfort you say, everyone wants there should be Lycra. Earlier, they used to be 2% Lycra. Now they want more Lycra, they want 4 sides of Lycra. So those types of changes are taking place in the consumer behaviour, consumer preferences. And we keep on studying them and keep ourselves preparing for that.

So that's why I mentioned in my opening remarks that we are continuously following the emerging trends, and we are preparing ourselves and making changes in our product mix as well as in our technologies to suit the emerging trends so that we remain ahead of the curve. So that we are doing.

Moderator: As there are no further questions, I would now like to hand the conference over to the management for closing comments.

S. K. Khandelia: Thank you, everyone, and very interesting questions were there, and we have tried to explain to the best of our capabilities and experience.

In concluding remarks, I would simply like to say, though the challenges in the spinning industry are continuing, but we are hopeful that in next year, market conditions will be better than current year, and with the efforts which we are making, we should see the very positive results in next year. This is what I would like to communicate. Thank you.

Moderator: Thank you. On behalf of Sutlej Textiles and Industries Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.