Vardhmān

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VARDHMAN TEXTILES LIMITED

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SUB: TRANSCRIPT OF EARNINGS CONFERENCE CALL OF VARDHMAN TEXTILES LIMITED – Q4 FY'23

Sir,

Pursuant to the provisions of Regulation 30 read with Part A of Schedule III of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed herewith transcript of the earnings conference call of the Company held on 09th May, 2023 to discuss Q4 FY'23 results.

Kindly take the same on record.

Thanking you,

Yours faithfully,
FOR VARDHMAN TEXTILES LIMITED

SANJAY GUPTA

Digitally signed by SANJAY GUPTA
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(SANJAY GUPTA)
COMPANY SECRETARY

"Vardhman Textiles Limited 4Q FY'23 Earnings Conference Call"

May 09, 2023

MANAGEMENT:	**MR. NEERAJ JAIN – JOINT MANAGING DIRECTOR, VARDHMAN TEXTILES LIMITED.**
	MR. SUSHIL JHAMB – DIRECTOR OF RAW MATERIALS, VARDHMAN TEXTILES LIMITED.
	MR. RAJEEV THAPAR – CHIEF FINANCIAL OFFICER, VARDHMAN TEXTILES LIMITED.
	MR. MUKESH BANSAL – HEAD OF FABRIC MARKETING, VARDHMAN TEXTILES LIMITED.
	MR. VARUN MALHOTRA – HEAD OF FINANCE, VARDHMAN TEXTILES LIMITED.
MODERATOR:	**MR. ABHISHEK NIGAM – BATLIWALA & KARANI SECURITIES PRIVATE LIMITED.**

Moderator: Ladies and gentlemen, good day and welcome to the Vardhman Textiles 4Q FY'23 Earnings Conference Call, hosted by Batlivala & Karani Securities India Private Limited.

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, 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 over to Mr. Abhishek Nigam from Batlivala & Karani Securities India Private Limited. Thank you, and over to you, sir.

Abhishek Nigam: Hi, everyone, good evening, and thank you so much for joining us today. From management we are joined today by Mr. Neeraj Jain – Joint Managing Director; Mr. Sushil Jhamb – Director of Raw Materials; Mr. Rajeev Thapar – CFO; Mr. Mukesh Bansal – Head of Fabric Marketing; and Mr. Varun Malhotra – Head of Finance. And now without any further delay I will hand over to Mr. Neeraj Jain for opening remarks. Thanks.

Neeraj Jain: So, this quarter has been better than the previous quarter, you would have seen the results. So, in terms of utilization on the spinning business, we were better. 3rd Quarter had been one of our worst quarter because of the utilization, very high cotton prices, slow demand and so and so on. Definitely there was a little bit betterment and the spinning utilization was almost full for us.

Country as a whole also, I think the 3rd Quarter we were estimating the utilization of spinning in the range of about 60% to 65%, which as of now our feeling is would be higher than 90%. So, one is the overall demand in the utilization, second is the margin which I will talk a little later. So, in terms of utilizations, definitely things have improved for India.

And in terms of fabric utilization this period was where our utilization has been in the range of about 80% to 85% still not reaching the 100% level, as the overall textile has been under somewhat concerns, the overall scheme of things.

This is a period where after seeing a very negative period of October, November, December where everyone in the system wanted to reduce the stocks so there was a destocking going on with every brand, whether it's a domestic or exports. As a result of that, people were not demanding at all.

Also, the 3rd Quarter was a period where cotton prices went to as high as Rs. 100,000 a candy, they were coming down. So, everyone in this system wanted to wait to buy, so that the inventory losses are not there. So, practically the four months starting somewhere in September, August, September last year till November, December has been a very difficult period. From that perspective definitely there is an improvement.

Coming to the cotton prices, the international prices also during that period had gone to as high as $140 cents to $150 cents per pound. And most of this period, in fact March, they have been in the range of about $78 cents to $85 cents. So, I mean the average could be around $82 cents or $83 cents or $84 cents in this period. And commensurate to that, the Indian prices also readjusted to almost Rs. 63,000 to Rs. 62,000 to Rs. 63,000 to Rs. 64,000 a candy, which was much higher before.

Also, this was a period where the, because of a crop damage in Pakistan their capacity utilization was much less. And Pakistan is one of the biggest supplier of coarser counts in the world market especially to the China since they were not operating fully, so there were, been a part of the orders which came to India also, though margins maybe there or not there, but at least in terms of utilization definitely it helped.

Another optimism in this period was the opening up of China. So, after the COVID restrictions which were too stringent there, the Government of China decided to open it up. And slowly the markets were opening and definitely there has been a more optimism for that market also. And there has been a buying of yarn from Chinese market also which practically for before that six months was not there at all.

Last call also I mentioned there were three scenarios:

I) The overall demand was less because of the high inflation, interest rates going up, EMIs increasing, energy prices going to a different level so people were, all the discretionary demands were less. And in this period, I think definitely there has been an improvement in that. And more and more people started looking at it, because the worst of risks, it looks like it's over.

II) Most of the brands were destocking in the earlier period and they were full of with the inventories, where they were reducing their inventories. And as a result of that they were not buying at all. I think definitely there has been an improvement, and brand by brand whosoever wherever the destocking was done, they started buying slowly in this period also.

III) The supply chain also improved, so earlier people were having concerns on supply chain, so they were still feeling that by the time material reaches them it will be again the devaluation of goods, that part was also over. So, the normalcy of business surely started happening in this period. And in addition to that, the optimism of China, and non-availability of yarn from Pakistan also helped the Indian spinner to do a little bit better in terms of utilizations.

The cotton rate continues to be high in India in comparison to what it used to be earlier. We are talking of the U.S. cents, the cotton which is available in India over and above New York future. So, if you look at the historic prices it used to be in the range of about $0.4 cents to $0.6 cents, which in this period most of the time was in the range of about $0.12 cents to $0.15 cents. Even today also, it would be close to about $0.12 cents to $0.13 cents only.

So, definitely the Indian spinners margin has got a hit. So, we had two issues:

1) One issue is the overall demand is less, the world and still people are expecting overall spinning utilization of only about 80%. So, that's one impact, because the demand is less, so the prices are not really commensurate to the cost.

2) The Indian spinner margin is less, because of our higher cotton prices compared to what we used to have earlier. And that disadvantage still continues, of course it's a little lower than what it used to be but definitely that disadvantage is there even as on today also.

The fabric utilization, I think are almost in the range of about 80% to 85%, the situation remains same over there also. Overall demand has been less, people have not been buying, most of the brands were destocking, so as a result of that they were not buying. So, we were in a position to utilize this much capacity. And even as on today also, the situation remains same.

Another silver lining in last couple of weeks is definitely -- if you look at all these segments, we talk about spinning, we talk of knitting, weaving, home textiles, garmenting, practically 20% to 25% utilization has been lower in last four months, five months. So, the first silver lining which we started looking at, looking like is the home textile, definitely their capacity utilization has improved in last couple of weeks and they are reaching almost depending upon the company, they are reaching almost 90% to 95% utilization, which is one signal where we can say definitely the demand has started coming in, or maybe the de-stockings are over and people have started buying again. And if one segment has started working, I am sure, the other may also coming in next maybe in the near future over a period of time.

So, our company also the utilization total spinning, almost running full capacities. The margins in this period has been generally in the range of about U.S. $0.70 cents, if you go by the market prices of yarn vis-à-vis the cotton, not more than $0.70 cents. Whereas in India many at times it was in the range of about maybe $0.60 cents also, because of the crisis of cotton which I mentioned earlier.

The fabric margin relatively whenever the yarn comes down, the fabric margins improve. So, as a result of that the integrated player like us, we had the advantage compared to the standalone spinners, where the margins are a little better in terms of the overall EBITDA margins.

So, that's a situation till now. I think the remaining things we can discuss, and we can explain along with the Q&A session.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Awanish Chandra from SMIFS. Please go ahead.

Awanish Chandra: First very obvious question in your opening remarks you have mentioned that you are working at now 100% capacity utilization in spinning division and we are holding our CAPEX plan for long. Any new thought on your CAPEX plan, anything you can guide on that?

Neeraj Jain: There are two issues which I mentioned in the last call also and I am repeating that. So, one is the overall demand is less in the world markets because of the various uncertainties. So, I think there is a concern on that, but I think that's not really that big a concern because if the overall ultimate markets will improve it's a matter of time. We are really not much bothered about the same. And I think that's not really a big concern.

The second is the India specific, if our cotton price continues to be higher than the world markets, probably than the concern could be a little longer, even if the things improves worldwide, but if our cotton prices continues to be higher which are as of now then probably whether the kind of margins which are expected whether they would be back or not, in next two to three years. Because ultimately what will happen if the margins are not good, expansions doesn't happen, some of the spinning plants, whoever is a weaker plant, will be stopping the capacity.

So, eventually the margins will improve, but all the questions and concerns is when does these correction of cotton prices happens, when does the normalcy in our own deal happens. And unless that happens, I think we are still waiting or we still want to wait maybe for next, some more time, before we make up our mind and we start looking at the big expansion. So, it's better looking at the broad situation, in our view, in our management's view it's better to wait for some more time, before the clarity is there, and we start expanding. And in any case we have just completed our 100,000 spindles which we have started utilizing on a fully basis now. So, I think we also like to consolidate maybe till the time we take finally on this.

Awanish Chandra: And you highlighted this international and domestic cotton prices, so internationally $0.84 cent and we are at $0.63 cent to $0.64 cent, so still we are not having parity or it is now very close to parity in your view.

Neeraj Jain: So, you know the way we measure the Indian cotton is always whatever is the New York future, and how much is the premium on that. So, if you look at the New York future today, let's say $0.83 cents to $0.84 cents. The American cotton is available, $0.15 cents over and above the New York future. So, the cost of American cotton to let's say Vietnam is about $0.14 cents to $0.15 cents higher than that. So, if it is $0.83 cents and $0.14 cents means $0.97 cents the Vietnamese spinner we will be getting it imported cotton or the American cotton. Whereas the Indian cotton today is close to about $0.95 cents to $0.96 cents. So, the yarn made out of American cotton will always have a premium of $0.15 cents to $0.20 cents. So, whatever is the Vietnamese spinner selling our yarns will be sold $0.15 cents to $0.20 cents lower than that. But if our cotton prices are same then we cannot make money.

So, the way in India people look at whatever is the New York future $0.4 cents, $0.5 cents, $0.6 cents higher than that has been our historic cost. We never look at the New York future is higher or lower, because ultimately if the New York future is higher, the yarn prices will also increase worldwide. But if cotton price are higher in India, we alone will not be in a position to increase the price in the world markets. That's where I am saying the Indian prices are still higher on the basis compared to what it used to be earlier and that's what is giving us a concern today.

Awanish Chandra: One bookkeeping things, how much cotton inventory today we have, and is there any situation of cotton arrival in mandi improved?

Neeraj Jain: So, the overall arrival in India till now is close to about 235, 237 lakh bales or I mean anything people are, maybe it could be 24 million bales as well. The crop size there has been a different estimate of the crop size so the CAI which started with almost 34 million bales today has come down to 30 million bales, this year PC they were at 337 lakh, so they are still 337 lakh bales and 240 is come here. The daily arrival even today also is in the range of 125,000 bales to about 140,000 bales.

So, it looks like maybe that doesn't seems to be much of concern on the overall availability and arrival of cotton. Of course, it is unprecedented that we get this much cotton in the month of April and May which has never happened. But yes, it's coming regularly and it doesn't seems to be really a shortage of cotton, it's only the farmers are in a position to bring it slowly so that they can maintain the parity, which is a kind of a different experience India had for the first time. Because we cannot import it as of now, because of this duty component, so we have to be dependent upon the Indian cotton. And somehow it looks like the farmer could understand this need and they are bringing it slowly. But otherwise in terms of availability etc., that doesn't seems to be that kind of a concern that cotton will not be there or what happened last year. I don't think that's a situation really.

Moderator: Thank you. The next question is from the line of Prerna Jhunjhunwala from Elara Capital. Please go ahead.

Prerna Jhunjhunwala: I would like to understand the demand from the Chinese market. Now that you were saying that the demand in Chinese market is better. And we are also seeing that Indian cotton prices versus Vietnamese cotton which it imports from America are also similar. And anyways they command a premium of $0.20 cents. And Indian cotton will also be available at the same levels then why, we are not able to make margins?

Neeraj Jain: Because our cotton price is same at the Vietnamese getting the American cotton. So, if my yarn is sold in $0.20 cents lower than them, how will I make money?

Prerna Jhunjhunwala: Okay, I thought that Vietnamese yarn is higher, I mean --

Neeraj Jain: No, whatever is the yarn based out of American cotton which Vietnam is one of the big player. Whatever yarn they sell from the cotton which is produced in USA whatever is their yarn price, our yarn price will be $0.15 cents to $0.20 cents lower than that. And if my cotton price is same what Vietnam is getting as American cotton and I am getting Indian cotton at that price then to that extent I will lose money.

Prerna Jhunjhunwala: At current spreads what would be the industry margin?

Neeraj Jain: $2.60 cents to $2.70 cents for Indian spinner.

Prerna Jhunjhunwala: And this is gross margin or EBITDA?

Neeraj Jain: Yes.

Prerna Jhunjhunwala: What is the hurdle in higher utilization of woven fabric, because the demand for woven apparel definitely is better than knit apparel in the market. So, what is the reason for not being able to sell, utilize our capacities to the fullest?

Neeraj Jain: I think if you look at all segments whether its denim, whether it's weaving, whether it's knitting, whether it's home textile the demand has been very dull in this period. So, that's the reason it is less, I mean if you look at even the knitting also, even the denim is still running at about 60% capacity utilization, the knitting would be running at about 65% to 70%. So, to that extent woven is in the range of about 80% to 85%. But it's not that the woven is having, is running at a 100% utilization. So, I am talking about the world markets. Every year the demand is slower whether it's woven or it's knit or its denim, everything I think there is definitely some reduction in the overall consumptions.

Prerna Jhunjhunwala: And what should we be looking at if we want to understand that there are green shoots in improvement in demand?

Neeraj Jain: So, one is the home textile, which is one signal for sure. And the two is the spinning capacity utilization because of the Chinese demand or the other demand. So, definitely we they have improved. So, these are the signal sign. And if you look at even the denim also, I think four months back their utilization had come down to about 40% to 45% which is now in the range of about 65% or so. So, definitely there is an improvement in every segment, but whether to the desired or to the 100% level, you know, but surely it looks like, we have definitely improved in every segment in the textile, in last three, four months.

Prerna Jhunjhunwala: What will be your expectation for FY'24 as a year, because still we are not seeing any major improvement in demand to the fullest, and margins remain under threat --?

Neeraj Jain: Yes so it looks like first six months and still I mean on one hand though we are saying things are better compared to what it used to be and I still maintain the same, but at the same time, next couple of months it will be a roller coaster in any case. So, I don't think the next six months we are likely to have any major trend or a major improvement in one direction.

And the '23, '24 should be or could be better than '22, '23, but whether we will really come back to the normal margins, for six months it doesn't look like, because if you look at now we are already in the months of May. The cotton prices, the next cotton season will start somewhere in the month of September. So, going by the arrival pace and the way cotton prices are behaving, I don't think there is likely to be any major drop in the cotton price in the next two months, three months time and then we will have to buy for this season. So, any major improvement or hope which is there, it will be beyond September only.

Prerna Jhunjhunwala: And we have cotton inventory holding for this season and what has been the procurement strategy and are you going to use any hedges?

Neeraj Jain: So, we are, first of all, we are not doing any hedging as of now, because most of the hedging we do whenever we import in a bigger ways, this year we are not doing any hedging first of all.

Two, if I look at the overall inventory with the mill sector our estimate is it would be in the range of about 60 days or so as of now, that's our estimate going by, I mean considering the total arrivals, consumptions happen, exports and imports, it would be in the range of maybe about 60 days or so.

So, for us, it will be, I think we are in the range of maybe about 90 days or 95 days or so. But definitely, I mean we are also a little conscious because once the new arrival comes in, probably there could be a possibility of lower prices also.

So, three we also want to look at how, because the business is also very hand to mouth on a daily basis. So, we are also being a little conservative as of now in cotton buying.

Prerna Jhunjhunwala: One question just in my mind, how do we look at growth then, when we are not expanding over the next two to three years are we looking at any other opportunities in the textile segment apart from spinning and woven fabrics because -- woven have taken a longer time to utilize fully and spinning margins continue to remain volatile like this, and import duty is a government call, so we cannot wait for government to change --

Neeraj Jain: So, definitely, so I agree with you, one area of improvement could be only the moment we start utilizing our full capacity or the weaving division, so there could be some improvement on the top-line or margins coming from that. Two, I think till the time we are very sure of the future of the industry and we are very sure of our cost factors whether the concern will be, whether we should look at the top-line and keep growing or we should be concerned about the bottom-line also and wait for some more time. So, today anytime we want to put up a spinning project, because now the kind of thing which was there with the machinery manufacturers that's not there today you can get machinery in six months, eight months' time. So, once again, the spinning project expansion could be completed in about 12 months or so. So, we haven't decided that we wait for one year and we want to wait for another one or two years before we start the project, I am only saying we want to have the comfort before we relook at these projects. And as of now we are not really, really comfortable going by the overall cost factors in the system.

So, that's what we think it's better to wait for some more time. So, I am not saying two years, three years but definitely we will wait for the right or an appropriate time. And whenever we think there is a consistent demand or there is any concern on our servicing to the customers, probably that is the time we might take a view as well.

Moderator: Thank you. The next question is from the line of Amit Khetan from Laburnum Capital. Please go ahead.

Amit Khetan: Could you share some perspective on how much spindle capacity addition has taken place globally as well as in India, and this is in the last two or three years post-COVID?

And besides India where have most of these capacity addition taken place?

Neeraj Jain: So, if we look at first let's look at the Indian scenario, Indian scenario, the overall spinning expansion or the overall spindles supplied in Indian market will be close to about 2.5 to 3 million spindles in last one year. And out of that about 70% is the expansion and about 30% goes for the modernization. So, if we go by 2.5 to 3 million spindles that means close to about 1.7, 1.8 million spindles would have been added into the Indian system, new spindle. And also, there is always some mills which will be stopping production. So, we estimate maybe about half a million spindles would be going off from the system, the older system. So, which means the net-net addition to the Indian spinning could be in the range of about 1.2, 1.3 million spindles, which is about 2% to 2.5% of our installed spinning capacity.

If we look at the world market, the total world market today is close to about 240 to 245 million spindles. And the net-net addition in the entire world is in the range of about 4 to 4.5 million spindles, because a total of about 7 million spindles are supplied everywhere. And almost out of that, again 30% goes for the modernization that means the 5 million spindles which are the new capacity, and maybe another one million spindles is going off from the various countries. So, the net addition could be in the range of about 4 million spindles or so.

So, this is a period where all these 13 to 15 lakh spindles which would have come to India is not that one house is there, so most of the places, I think the expansions are in the range of about 40,000 spindles to maybe one or two factories would have added about 100,000 spindles. For example, Vardhman added 100,000 spindles equal line. So, this is a very scattered kind of expansions which have happened.

And third, I think there is no Greenfield project which is coming. Most of the expansions which have come in the existing players have added some capacities to their existing locations or maybe the existing groups has taken a new location, but as such no new group has come in, in a big way for adding the capacity into this system. So, we earlier thought two years back where everyone wanted to expand on this spinning business, probably that's not the scenario today.

Amit Khetan: Outside of India where have most of these capacity additions taken place?

Neeraj Jain: So, most of this capacity expansion other than India was the Uzbekistan, Bangladesh, Turkey, these are three bigger players where the capacity, China is not adding their net-net, they are reducing also, only Pakistan is not adding, Indonesia is not adding. So, the bigger capacities are coming in and maybe some capacities coming into the Central American zone also where they have the advantage of cost price etc.

Amit Khetan: And lastly, given that we are not doing any kind of expansion CAPEX for FY'24, what would be our normal maintenance CAPEX for this year?

Neeraj Jain: In the range of almost about Rs. 300 crore or so.

Moderator: Thank you. The next question is from the line of Falguni Dutta from Jet Age Securities. Please go ahead.

Falguni Dutta: Just a repetition, what is the premium at which Indian cotton quotes versus the New York cotton and why is there a premium?

Neeraj Jain: So, American cotton is the contamination free cotton. It's all machine pit, so there is no contamination in that cotton. So, that is why the yarn made out of American cotton sells at a premium. Indian cotton in terms of other characteristics which is the length, strength, touch is very good or maybe comparable to the American cotton. But it is only and only contamination where our cotton is sold at a discount.

Falguni Dutta: I missed the last part, what did you say, why is our cotton normally at a premium to American?

Neeraj Jain: I said in terms of length, strength, touch, our cotton is comparable or even better than American cotton. The only disadvantage is our cotton is all manually pit so it is very contaminated, there are lots of contamination in the Indian cotton. That's why the yarn made out of American or Australian or Brazilian cotton sells at a premium.

Falguni Dutta: So, that's why you said Vietnamese yarn will also sell at a premium because it's made from American cotton?

Neeraj Jain: Generally, they use the American or the Australian so that's why they have the advantage.

Falguni Dutta: Normally how have our cotton prices being compared to the American cotton prices?

Neeraj Jain: So, as I said the American cotton is available at $0.15 cents, $0.16 cents, $0.15 cents over New York future. Our cotton historically has been about $0.5 cents over New York future, so will always be about $0.8 cents to $0.10 cents lower than American cotton. And if we translate into the yarn, it will be almost about $0.20 cents to $0.25 cents for the yarn. But in this period our cotton is almost comparable to American cotton.

Falguni Dutta: And that's the reason which is creating a problem. So, correct me if I am wrong, so currently as we seek our cotton is at par with American cotton and hence the problem of lower margins.

Neeraj Jain: Correct.

Falguni Dutta: And last question is on the other expenses part, why has it been quite a bit lower YoY for the quarter?

Management: You are comparing with the corresponding quarter?

Falguni Dutta: Same time, yes last year, Q4 of FY'22.

Management: Last year there was the extraordinary item of hedging loss on cotton derivatives.

Moderator: Thank you. The next question is from the line of Niraj Mansingka from White Pine Investment Private Limited. Please go ahead.

Niraj Mansingka: Just one small query on the replacement cost. Can you share what the cost of putting up a Greenfield capacity in rupees per spindle, and the Brownfield capacity, in the --?

Neeraj Jain: No, it doesn't make much of a difference nowadays between Greenfield or the Brownfield unless there is some cost in terms of land acquisition etc. is required. So, today the cost of putting up a new spinning capacity is almost in the range of about Rs. 80,000 or so per spindle.

Niraj Mansingka: And please share what was it say five years back or six years back around this number?

Neeraj Jain: So, five years back would not be more than Rs. 50,000 or so, Rs. 50,000 to Rs. 55,000.

Niraj Mansingka: And what has caused this price to go up because there has been some correction in the commodities also. So, do you think it is sustainable or will the cost of making will come down?

Neeraj Jain: There are a couple of factors one is if we look at the cost of all building material, it has gone up substantially in last five, six years. So, I think every two, three years, I mean every year there is some automation which would be improved by the vendors also. And whenever they come up with new models, they will keep improving their pricing also, because they will be bringing in more and more features also in the system. Now whether you will really be benefitted by those features significantly or not but definitely their cost of the machine will keep increasing.

Third, I think slowly people are going for more and more automation in general also. So, for example, roving stock, roving transportation, five, six years back it was really a kind of a hardly someone would be going, but today all projects are conceived with this only. If you look at 10 years back, people were thinking whether we should go in for auto doffing or not. Today it's a given situation you will go with the auto doffing only because there is no other way you can maintain that. So, I mean few things, technology there, which was an optional couple of years back today has become a basic technology and the cost is --

Niraj Mansingka: Then, do you see these margins go up and then only will the players be adding capacity?

Neeraj Jain: Definitely, I mean we have to have the right margins because whatever margin on a $0.60 cent to $0.70 cents gross margin, industry cannot make money. So, to make us right money we have to go to maybe about $0.90 cents to $1 kind of a margin.

Niraj Mansingka: Which means that until the industry reports an average EBITDA of what they did last year --

Neeraj Jain: No, that was much higher, that was also an exception. So, EBITDA of 15%, 16% on the sales, 15% to 18% on the sales I think generally suffice the purpose.

Niraj Mansingka: Is it right to put that number at Rs. 60 kilo over my EBITDA on the yarn side?

Neeraj Jain: No, 60 will be much higher, so you will have to look at it I mean generally the concept is about Rs. 8, Rs. 9, a spindle, so on a five spindles maybe about Rs. 45 to Rs. 50.

Niraj Mansingka: And the current would be how much sir, in rupees per kg?

Neeraj Jain: Current would be what maybe about Rs. 15 to Rs. 20, in the best-case scenario or many places it will be even almost the marginal or much less than that also.

Niraj Mangsingka: That's what I was saying, basically I was saying at Rs. 30 to Rs. 35 or Rs. 25 or Rs. 35 rupees range increase in EBITDA required for the industry to think of adding more capacity.

Neeraj Jain: That is true, so as I mentioned our average EBITDA today with the gross margin is $0.60 cent which has to go to $0.90 cents. So, if we look at a $0.30 cent, Rs. 25 to Rs. 30 kg improvement is required minimum.

Moderator: Thank you. The next question is from the line of Resham Jain from DSP Asset Managers. Please go ahead.

Resham Jain: So, my question is, one is on the overall inventory levels compared to last year the cotton prices have come down meaningfully I am saying March end. And if you look at the inventory it is just Rs. 500 crores lower at consolidated level. So, as compared to last year are we carrying slightly higher inventory in terms of number of months?

Neeraj Jain: No, last year also, if you look at the February, March, the prices were much lower. The prices have increased around March only, April, May it started going up. So, if we are comparing with 31st March figures prices of cotton were in the range of Rs. 55,000 to Rs. 57,000 only or Rs. 60,000 only. So, it is only in the month of April where the government gave a relaxation on the duty part, the international prices went up and the Indian prices also aligned to that. So, it was only April, May where we have seen the peak of cotton prices.

Resham Jain: And the second question is more on the balance sheet side. The debt of close to Rs. 1,800 crore odd at the consolidated levels versus Rs. 2,700 crore of cash, are the interest rates quite different between the two and that's why we have more cash and at the same time we have debt as well?

Neeraj Jain: No the debt is generally a long term debt so there we have some subsidies also from the government. And the cash availability is one of the offshoot is, because we didn't buy enough cotton so the cash improvement was there. We do not have any working capital debt as such, so it's most of the debt which is there in the book is the long term debt which is the debenture as well as some long terms loans from the bank or maybe the working capital would be under the export packing credit which is definitely at a much lower price.

Resham Jain: So, most of the debt one can assume will be at a lower interest cost than a normal level or a normalized debt --?

Neeraj Jain: Maybe for the term loans, yes, but for the debentures would be at the market price.

Resham Jain: And just one related question here is that because '24, we don't have a very CAPEX as of today and I could see almost 33% of your net worth is in cash right now and that too in the March; September this will be further higher given that the inventory level may not be very large at that point of time. So, how do you think because your ROEs are getting depressed significantly because of this, one-third of your net worth in cash, not into earning anything into from a business perspective, how do you think about this?

Neeraj Jain: Two things, on the second part, I am also, I am in agreement with you that one-third of the net worth is not into the business, so the earning will keep depressing for sure. But the concern or the question is whether we should keep investing without having a comfort on the business scenario, which I am sure it's only, it's not that we are not going to expand, it's only matter of time and we want to wait and pause for a little better time. And I think definitely there are plans. So, the expansion could happen, if not in '24 maybe '25 or so.

Second, our March numbers and September numbers there is not going to be any reduction in the September numbers from this, because in any case March also we have one of the lowest inventories. Normally March inventory is much higher, this year our inventory is so low that September or March is not going to make any much of different to us.

Resham Jain: Because, you will keep adding profitability to this number next year as well. So, how would you think about, because even if you do CAPEX let's say in the next two years the amount of CAPEX will not be like Rs. 3,000 crore to Rs. 5,000 crore. And your early cash generation itself will be like closer to more than whatever number it might be Rs. 1,000 to Rs. 1,300 crore, Rs. 1,400 crore, whatever that number might be. But will you be doing CAPEX beyond that number also in future and that's why you are keeping such a high level of cash?

Neeraj Jain: I mean it all depends upon the opportunities for example last year we were very comfortable with the opportunities and we already announced almost 300,00 spindles together. So, I think once the business model becomes normal or maybe we have comfort, why not look at whatever we have announced we may implement it also in a one go.

Number two, whatever extra cash is available, part of that cash has to be utilized for the purchase of raw cotton as well. Because this year our inventory has really at a very marginal so that's why this is showing this kind of cash position, but if you look at our normal years, probably Rs. 1,000 or maybe Rs. 1,200 crore of additional raw material would have been there so the cash position would not have been that kind of situation which is showing today. But yes your question is valid, concern is valid, we are also concerned about the same. And I feel personally maybe once this situation becomes normal, there could be a little better or a little aggressive expansion won't happen in our company as well.

Moderator: Thank you. The next question is from the line of Akshay Kothari from Envision Capital. Please go ahead.

Akshay Kothari: Regarding the farmer thing, just wanted to know that yield per hectare of cotton in India is very low. So, what are the main reasons for it and could there be some sort of arrangements wherein we procure seeds for farmers and then we get the output some sort of arrangement like that. So, it would solve both of the problems, because throughput will increase and at the same point of time we are also supporting the cotton ecosystem.

Neeraj Jain: If we look at the reason for the cotton lower yield 1) farms are very fragmented, it's a very, very small size of the farming. I mean there to give you an idea, if India has 34 million bales there are almost more than 6 million farmers who are doing the farming of cotton. So, on an average, one farmer has only 5 bales, so that's the kind of size we are talking about.

2) Our seed which is available in the system is very old, and the new seeds are not available in India. As a result of that the yields are also low.

3) We still not have an entire irrigated area, so there is lots of area which are still rain fed so that's also a reason where if the rain is insufficient or higher, the crop gets damaged.

So, the biggest season would be the very small farm size, as a result of that the crop cultivation and the second is the seed, because of which we are not in a position to do that. Having said that procuring seeds and I mean for us our annual consumption is almost 15 lakh bales. If I want to look at that we buy seed and we get a farming done, probably I require to work with 300,000 farmers, three lakh farmers which won't be possible for any company to do that.

Akshay Kothari: But that is on average, three lakh famers which you have come up with the figure --?

Neeraj Jain: Even if it is 1000, 2000, 5,000, 10,000 that is not our cup of tea.

Akshay Kothari: Is there any plan for the government where they will, they are trying to replace these old seeds meaning what is the status?

Neeraj Jain: They have already constituted a committee under Mr. Suresh Kotak who is working on all these ideas. So, I think those discussions they already have a couple of meetings with the government. But I think whenever the final move will be taken by the Textile Ministry then it will go to the Ministry of Agriculture, if they approved and normally it is said, whenever a new seed is approved they will be doing the experimentation and it generally takes about three years for the commercialization of a new seed, whenever they decide.

Moderator: Thank you. The next question is from the line of Sarad from Indian Institute of Management, Kozhikode. Please go ahead.

Sarad: I just wanted to understand what has been our realization per kg of yarn for this quarter as well as on a year-on-year basis?

Neeraj Jain: So, in this period the average market price has been in the range of about $3.30 for 30s combed. Last year was almost $4.50 cents.

Sarad: Do you see any improvement in this average realization over the next quarters?

Neeraj Jain: Very difficult to say, first we have to continue utilizing the full capacity, once that happens the margin improvement can happen only after that. And this has been a period where all the mills are aiming to utilize the capacity only. So, I mean if the overall demand improves in terms of all these segments definitely the yarn would also start improving, but till the time we are looking at knitting as I had mentioned earlier also, the knitting, denim, weaving every segment is working only at about 70% utilization. In that scenario is won't be possible for improve or increase the yarn prices alone.

Moderator: Thank you. The next question is from the line of Abhineet Anand from Emkay Global Financial Service. Please go ahead.

Abhineet Anand: I just wanted to understand today if we have to put up a capacity what could be the lead time for that?

Neeraj Jain: Normally it is about 12 months or so.

Abhineet Anand: So, in between there was issues around supply constraints right so all those are eased out today?

Neeraj Jain: As of now it's totally ease out, because there is no one was who is giving any new orders so most of the machinery vendors they are just supplying the older orders they had booked. But as of now there is definitely, they haven't got any orders in last six months or so, till the time since this situation has deteriorated. So, as of now it's quite eased out.

Abhineet Anand: Secondly, I mean as you have been highlight that the margin is not that -- to put the plants and all. And you did adhere to two other sentences, one was that we might go for expansion in year of '25 and '26, I mean is it cursory remark or something one should read into it?

Neeraj Jain: I think I have been very consistent in my saying earlier also, till the time we are very sure of the raw cotton prices are aligned to the world market, it doesn't make sense for any Indian spinner to expand on a commercial basis. The moment we are comfortable that our problem or the overall demand is less there is no issue. We are also facing the same, the other fellow is also facing the same, no problems at all. But if our cotton prices are higher in India, then we can't compete. So, I would like to wait till the time the resolution happens on those things and the moment we are comfortable then we will expand it, right. If that doesn't happen, then we are not going to expand in a big way, because that will be having a basic question mark on the viability of the business.

Abhineet Anand: And today also we think there is a 10% to 15% differential in premium Indian cotton -- today also --

Neeraj Jain: Yes, at least $0.10 cents.

Abhineet Anand: And the other sentence that you used during the talk was, once these concerns are addressed, I mean we might have an aggressive CAPEX plan. If you can just, let's assume, it's a hypothetical thing, let's assume this the whole differential goes to just 2% to 3% which has been earlier there, so from here, 1.3 million spindles do you think that in the medium term we will add very large number to it, I am just talking about 3 years perspective.

Neeraj Jain: So, what I mentioned the aggressiveness would be and we have already announced 300,000 spindles expansion. We might start looking at why not to expand in two years time and all those things.

Abhineet Anand: The three lakh that you talked about one lakh we have already done right?

Neeraj Jain: No, another 2.5 lakh was announced so maybe 2.5 to 3 lakhs would be another expansion which could be undertaken.

Abhineet Anand: So, when things ease out, this can be a plan that one can --?

Neeraj Jain: This could be a plan in my person view, but of course the company has to take a view, but definitely I feel if the opportunity is there we are having the right margin, company is having lots of cash and the opportunities are there, why not to expand it.

Moderator: Thank you. The next question is from the Prerna Jhunjhunwala from Elara Capital. Please go ahead.

Prerna Jhunjhunwala: Just wanted to understand the demand in the blended yarn so how is the profitability in cotton versus blended yarn? And is there a long-term demand for blended being better, because of cotton being volatile like this?

Neeraj Jain: Surely the blended demand is better. People are moving towards more and more polyester based or viscose based products as well. And if we look at the consumption pattern of both viscose and polyester it's increasing in India. As of now the margins are comparable whether its cotton yarn or blended yarn, because the same spindles can produce anything we want to. And the moment someone looks at, oh there is a slightly better margin in a particular segment everyone will start producing that and again the margin in that segment will also be coming down.

So, as of now whether it's blended yarn or its cotton yarn, the margins are comparable, but definitely I feel or I find the overall improvement increase in terms of demand on the blended is improving.

Prerna Jhunjhunwala: And profitability is better in blended is what you are saying right now?

Neeraj Jain: No, as of now I said, it's totally comparable. And even in the best of the times it will be comparable only, because the moment people find cotton yarn is better, they will start producing cotton yarn; the moment they find blended is better they start to divert more capacity on that. So, in terms of profitability there is not going to be much difference between cotton yarn and blended yarn, because the same spindle, same capacity can produce anything you want to.

Prerna Jhunjhunwala: Oh, is that fungible?

Neeraj Jain: Yes.

Moderator: Thank you. The next question is from the line of Falguni Dutta from Jet Age Securities. Please go ahead.

Falguni Dutta: Another question on the same line, why do you think that our cotton prices are not getting aligned with the international cotton prices as they should?

Neeraj Jain: For a simple reason, we can't import today and the farmer is starved because of the import duty on cotton and the farmer is holding on to this.

Falguni Dutta: But this duty, I am not aware of that, so just pardon me for that. Is this duty a new one or it was there already?

Neeraj Jain: So, this duty was put in, in the budget of 2021, so there is a 11% custom duty on import of cotton so this was put in, in 2021.

Falguni Dutta: Then this situation doesn't seem like to be resolving, right, how will it resolve itself?

Neeraj Jain: The only way to resolve is the government takes it back, if they want to.

Moderator: Thank you. The next question is from the line of Manish Dhariwal from Fiducia Capital Advisors Pvt. Ltd. Please go ahead.

Manish Dhariwal: Taking the cue from one of the participants earlier, given the fact that this year we are --; go ahead on our CAPEX plan and that is also causing us to like maintain some high levels of cash, even after assuming the working capital situation improving by getting to higher inventory. Why can't we look at improving our balance sheet by looking at a buyback which we last did in 2016/2017. Basically, I think that will rate over business on a balance sheet basis far more robust and so that improvement will be there at least for the shareholders. So, what's your view on that?

Neeraj Jain: I think I am not the right person to answer on that, definitely I can relate your feeling to the Board of Directors, but probably on the operational side I can only answer those questions and this question I can discuss or I can maybe convey to the Board, what about your view on this.

Manish Dhariwal: And secondly -- Rs. 1000 odd crores of increase, cotton could have been bought. I was observing that -- already, obviously our size has increased, but still our inventory is at some Rs. 2400 crores odd, is not really less, but you still feel that higher inventory levels would be required.

Neeraj Jain: Yes, of course yes, because normally 31st March our inventory is for about 7 months to 8 months period. So, as of now we only had I think about 60 days or so. So, maybe another Rs. 1000 crores, had it been a normal year, I would have added another Rs. 1000 crores of inventory.

Manish Dhariwal: Any possibility of further improvement in our debtor management system? The debtor days which had actually gone up earlier, but that was obviously because of the COVID and other issues --; so we have like further improved. But any possibilities of further improvement there?

Neeraj Jain: We do all the exports under letter of credit and normally in the spinning business, the terms of the letter of credit are 90 days to 120 days usance though it is covered by the letter of credit, but still technically it is shown as debtor till the time finally money, though we may get it discounted also but at the same time the accounting entry will get readjusted only once we get the final payment through our Nostro account. So, technically that is debtors only because it's a 120 days of LC.

Manish Dhariwal: I was thinking that given the fact that this year the organization's focus would actually not be occupied by the expansion which typically we do. So, how else could the efficiencies or improvements be brought in any thoughts on that, because I am sure you must be thinking on those lines. So, if something of that sort would be shared with us that will be very useful.

Neeraj Jain: First and foremost our priority is to keep running the full capacities. Situation is not normal, most of the value added segments are running at about 70%, which means the spinning should run at about 70% to 75%. So, whosoever is aggressive, whosoever finds the customer, whosoever is in a position to deliver products to the customers in the right time and give right service, with the variety of products, I think that's the key to success.

So, this is the time where the entire focus is i) first to run the capacities.

ii) Within the system whatever is the efficiency, productivity or any improvement possibilities to do that.

iii) Whenever the segments and markets are bad, the customer becomes very choosy. So, in terms of servicing them because they want immediate orders, nobody gives, normally most of the times normal --; I have lots of orders which are good for 6 months or 8 months, today is the time where no customer wants to place an order more than 30 days or 40 days. How do you make those changes and keep supplying them.

So, those are very different challenges, because nobody is comfortable with the business model, nobody knows what is happening tomorrow so everyone wants just in time. I think it's a different word as of now.

Manish Dhariwal: Last question, I was looking at our production and sales data we observed that our fabric production sales were like significantly lower compared to the last year, and during the call you also mentioned that the margin on the fabric side is actually higher and anyone who instead of mélange sales the fabric, will make better margins. So, nobody is better than our company in efficiency and in this thing, then why is there a drop in fabric sales and production?

Neeraj Jain: Yes so I think this has been a period where definitely because of the lull in the market, the volumes have come down. So, it's not only that we were looking at a higher margins only so that's why the capacity utilization we couldn't do. Capacity utilization in any case has been on a lower side because of the lower demand. The margins improved by default because the yarn prices kept coming down so their margins improved in this period.

If you look at increasing yarn prices, always the fabric margin comes down because we had booked the orders and by the time they deliver it, the yarn prices have gone up. And this is a reversal of the case, where the margins have improved better, because the yarn prices kept coming down, wherever they book it for 3 or 4 months, and by the time they deliver the market prices of yarn are on a lower side.

Moderator: Thank you. The next question is from the line of Varun Gajaria from Systematix Group. Please go ahead.

Varun Gajaria: The revenue, just wanted to check, what is the revenue split for yarn and fabric segment for FY23?

Neeraj Jain: Sorry, we do not share that separately.

Moderator: Thank you. The next question is from the line of Anil Kumar Sharma, individual investor. Please go ahead.

Anil Kumar Sharma: My question is, how much we are exporting to China and Bangladesh?

Second question is under Textile PLI Scheme, are we thinking on those lines and what are the guidelines, any light on that, PLI scheme for Textile?

Neeraj Jain: So, Bangladesh, China are significant markets for India. Of course China past 6 months has been very silent, but they have started coming back again. So, China in the overall volume of things is almost 25% of the Indian consumption, which of course in this period has been less. Bangladesh is definitely bigger, almost 35% capacity of spinning goes to Bangladesh only. So, our ratios would also be aligned to that.

Two, on the PLI, PLI is basically for the 100% synthetic products, there we haven't applied anything under this PLI schemes so there is no plan for us to go in for a 100% synthetic fabric base business. So, we will not have any advantage of PLI.

Anil Kumar Sharma: Technical textile we are not thinking on those lines?

Neeraj Jain: We are not in the technical textile, so our fabric business is only apparel fabric.

Anil Kumar Sharma: Yes, we are not thinking on those lines, okay.

Neeraj Jain: We are not thinking and in case for the PLI you have to have separate company, because you can't do it in the same company so there are different conditions that the government has put in and we did not find it really suitable from our perspective.

Anil Kumar Sharma: My last question is, do you think that in the second half, after October, what is, though it is not clear now, but do you think that our margins will be in the range of, we can think of this 18% or say 15% to 18% margin in the second half?

Neeraj Jain: See my personal feeling is, going by what is happening today the demand has slowly started coming back to the bulk markets. As I mentioned some segment are showing improvement and also every segment from the worst is better. So, as things pass, I think we will be stocking with whatever, whosoever has, we will also keep finishing and people will start coming for the buying. Third, if we look at the U.S. interest rates, it's almost like, it looks like it's peaked up and now it's only the stability or the traction will happen. If you look at the energy prices in Europe it is definitely lower than the peak which it touched and slowly it is also readjusting to the current prices.

Having said all these things, it looks like definitely once the demand starts coming in the normalcy in business happens, surely the improvement in every segment of the business would happen, which is kind of an exception in this period of last 6 months. So, if you ask me personally, I am definitely buoyant, during September/October our wool cotton will also be coming in so I hope at that time the prices will also get readjusted and once the demand is there, then why not the improvement happen, should happen.

Moderator: Thank you. The next question is from the line of Anik Mitra from Finartha. Please go ahead.

Anik Mitra: Like in the system we are exporting yarn globally mainly China or Bangladesh, whatever. Now my question is, during the period, when Indian cotton prices are quoting higher than international prices or maybe in line with the international prices and when the consumer is getting better quality U.S. cotton, better quality U.S. yarn, cotton yarn along with Indian cotton than why international consumers are procuring Indian cotton, Indian yarn, because one thing here, that Indian spinners are still making some money out of it. So, my question is, why then Indian cottons are procured by international consumers.

Neeraj Jain: The customer has all kind of products where some products where the customer doesn't want contamination at all. So, their preference will be to buy the yarn made out of Australian or American cotton only, because there is no contamination. And customer generally fix a price for that based on the international prices of New York future or the American cotton. The same customer has lots of products which will be used for the darker colors products or where the contamination could be acceptable. So, he is buying the Indian yarn, but at the same time, his price benchmark is lower than the contamination free yarn, that's what he is doing. So, why would he pay a premium on something where he can use the contaminated cotton, he will not buy the American cotton for that. So, for American cotton whatever is the price there will be a discount compared to that for the contaminated cotton, cotton yarn made out of contaminated cotton, that's what it is.

Moderator: Thank you. Ladies and gentlemen this was the last question. I now hand the conference over to the management for the closing remarks.

Neeraj Jain: So, I think definitely there is an improvement in the numbers in the business compared to where we were 3rd Quarter. But as I mentioned next 3 to 5 months could be again a rollercoaster where all our efforts are to utilize the full capacity and keep serving the customer because whatever is happening today maybe our cotton prices are higher or lower but it's only a temporary phase and eventually I think the readjustment would happen, if not today maybe 6 months down the line or so and so on. In the meantime we can't lose our customers so we have to really ensure the long term viability or the long term advantages which we have created should not be compromised with. So, that's where our thought is to keep delivering or to keep serving our customers with whatever products they require so that we can retain them or we can continue to build our better relations.

So, as I mentioned, our first efforts was to keep using the almost full capacity, which we are doing it as of now and all efforts are on that. Secondly is also in terms of increasing fabric utilization also. And third is that whatever ideas we have for improvement in the internal efficiencies and all --.

i) So, whatever one is the retaining the customers which is a long term kind of thing.

ii) We are also not compromising anything on our modernization base, you know that's something which is advantage which the organization create for a longer period of time. So, even in the worst of the times our modernization process is continuing. And I am sure whatever advantages we have created over this last many years will continue to do the same. And as the business will keep improving, as the things becomes stable I am sure the business will also improve.

So, I thank everyone of you for having the patience remaining with the company. And I can ensure you from the management's perspective we are doing our level best and I am sure as the situation improves our company number would also be aligned or will be improving accordingly. So, thank you very much and good day to all of you.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Batlivala & Karani Securities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.