May 13, 2024

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विक्रम संवत, २०८१

**National Stock Exchange of India Limited**
"Exchange Plaza"
Bandra – Kurla Complex,
Bandra (E), Mumbai – 400 051
**NSE Code: GHCLTEXTIL**

**BSE Limited**
Corporate Relationship Department,
1st Floor, New Trading Ring, Rotunda Building, P.J. Towers,
Dalal Street, Fort, Mumbai – 400 001
**BSE Code: 543918**

Dear Sir/Madam,

**Subject: Filing of Transcript regarding Investors' conference held on May 08, 2024**

In continuation to our earlier communication dated May 1, 2024 and May 08, 2024 regarding Investors' conference on May 08, 2024 and pursuant to requirement of Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we are pleased to attach copy of the transcript regarding said Investors' conference held with the management on May 08, 2024 for your reference and record.

Please note that copy of this intimation is also available on the website of BSE Limited (*www.bseindia.com/corporates*), National Stock Exchange of India Limited (*www.nseindia.com/corporates*) *and website of the Company* (*www.ghcltextiles.co.in* ).

You are requested to kindly note the same.

Thanking you

Yours faithfully

**For GHCL Textiles Limited**

LALIT NARAYAN DWIVEDI
Digitally signed by LALIT NARAYAN DWIVEDI
Date: 2024.05.13 13:18:29 +05'30'

GHCL TEXTILES LIMITED

**Lalit Narayan Dwivedi**
**Company Secretary and Compliance officer**
**Membership No.: FCS10487**

# "GHCL Textiles Limited
# Q4 FY'24 Earnings Conference Call"
# May 08, 2024

**MANAGEMENT:** **MR. R.S. JALAN – NON-EXECUTIVE DIRECTOR – GHCL TEXTILES LIMITED**
**MR. RAMAN CHOPRA – NON-EXECUTIVE DIRECTOR – FINANCE – GHCL TEXTILES LIMITED**
**MR. R BALAKRISHNAN - CHIEF EXECUTIVE OFFICER – GHCL TEXTILES LIMITED**
**MR. GAURAV V. – CHIEF FINANCIAL OFFICER – GHCL TEXTILES LIMITED**
**MR. MANU JAIN – GENERAL MANAGER, INVESTOR RELATIONS AND FINANCE**

**MODERATOR:** **MS. SHEETAL KHANDUJA -- GOINDIA ADVISORS**

**Moderator:** Ladies and gentlemen, good day and welcome to GHCL Textile Limited Q4 FY24 Earnings Conference Call hosted by GoIndia Advisors. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes.

Should you need assistance during the conference call, please signal an operator by pressing star, then zero on your touch-tone telephone. Please note that this conference is being recorded. I now hand the conference over to Ms. Sheetal Khanduja from GoIndia Advisors. Thank you and over to you ma'am.

**Sheetal Khanduja:** Good afternoon everyone. A warm welcome to everyone attending the GHCL Textiles Limited Q4 and FY24 Earnings Conference Call. We have with us on the call today Mr. R.S, Jalan, Non-Executive Director; Mr. Raman Chopra, Non-Executive Director; Mr. R Balakrishnan, Chief Executive Officer; Mr. Gaurav V., Chief Financial Officer; Mr. Manu Jain, General Manager, Investor Relations and Finance.

The discussion today may include certain forward-looking statements and must be therefore viewed in conjunction with the risks the company faces. I shall now hand over the call to Mr. Jalan for his opening remarks. Thank you and over to you sir.

**R.S. Jalan:** Thank you Sheetal. Thank you very much. Good afternoon everyone. We are pleased to welcome you all on our Q4 and FY24 earnings call. Our investors' presentation has been uploaded on the exchanges and we hope you have reviewed it. FY24 marks the company's first year post-demerger from GHCL Limited and I am pleased to report that this highlights our commitment to growth and create a value for our stakeholders.

Today we proudly hold the position of a premium yarn manufacturer known for our exceptional quality. Our strategic focus remains on our premium segment that meets the distinct needs of our customers. Our diverse product portfolio of synthetic fibre, double yarn, open-end, cotton yarn ranging from 24 to 120 ounce, highlights our ability to adapt to dynamic market trends and reinforce our competitive position.

Moving into the financial performance, I am pleased to inform that we have declared a dividend of INR 0.50 paisa per equity share of INR 2 each, representing 25% of the paid-up capital for the financial year FY24. This step is a testament of our commitment to rewarding our shareholders for their continued support and confidence in our company.

In Q4 FY24, our revenue from operations has increased by 7% year-on-year and 17% quarter-on-quarter, reaching INR 288 crores. EBITDA for the quarter came in INR 30 crores as compared to minus INR 27 crores during Q4 FY23 and INR 20 crores during Q3 FY24. EBITDA margin stood at 10%.

Next profit for the quarter is INR 10 crores, up from INR4 crores in Q3. Overall, our plants are operating at 98% plus capacity utilisation. Balance sheet remains healthy without significant leverage on books, which offers ample room for growth.

I would like to touch upon some of the strategic updates. We have made substantial headway in our capex commitment. In aggregate, we have 2.25 lakh spindles. We have commissioned 40,000 spindles capacity this year and this will add another turnover of around INR300 crores in our top line during FY24/25.

Looking ahead, our commitment to expansion remains firm, we have previously outlined our intention to increase spindle capacity to 1.5 times and we are on-track to achieve this goal. 25,000 spindle expansion shall be operational by early FY26. This expansion is expected to generate incremental revenue of INR250 crores, further solidifying our financial position and market presence.

Further, we have also commissioned 15 megawatt of renewable energy, taking our total renewable energy towards 62 megawatt. We aim to expand our green energy portfolio to 75 megawatt and this expansion will provide cost benefit and further reinforces our commitment to environmental substantiality.

Now I will cover the market scenario. In continuation from March '24, demand and spread for yarn started to rise in April '24 on an expected line. However, a sudden dip has happened in the last two weeks, which has impacted the business sentiment. We are assessing the reasons and if this dip is temporary, the recovery shall resume. Going forward, the company is poised for further growth and sustainability with strategic initiatives aimed at enhancing operational efficiency and financial performance.

Our vision is ambitious, yet achievable. We aim to double our revenue within next three to five years with an average EBITDA margin of 17% to 20% in the long run.

Thank you. With this, I would like to open the floor for questions.

**Moderator:** Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Ashwini Agarwal from Demeter Advisors LLP. Please go ahead.

**Ashwini Agarwal:** Good afternoon. This is Ashwini Agarwal. I have a couple of questions. Your capex plans that you have outlined, how much do you intend to spend over the next two years? And how much debt would you need to complete this capex?

**R.S. Jalan:** Yes, Mr. Ashwini, look at this point of time, like I said, 25,000 spindles are under the implementation. So that will require approximately around INR 200 crores of the capex. And as I outlined, the 15 megawatt of our green energy initiative is also there. So that's the second part.

Overall, if I can say in a number terms, we are talking about something around INR 350 crores of investment in the next two years of time. And out of that, probably we'll be looking at something around INR 250 crores to INR 260 crores kind of borrowing on this account.

**Ashwini Agarwal:** So the debt, if I were to look out two years from now, would be in the ballpark of about INR 200 crores to INR 250 crores, including some repayments of current debt?

**R.S. Jalan:** Yes, I think so. You are right, around INR 200-250 crores kind of a debt.

**Ashwini Agarwal:** Okay. And you made a reference to the spreads having declined in May suddenly in recent weeks. Any particular reason? And what are these spreads at right now compared to what you saw in the latest quarter?

**R.S. Jalan:** See, like I said, at this point of time, it is very difficult to predict why this has happened. We are just trying to assess because this is a very recent past. Our gut feeling is this is maybe a temporary situation because of elections and things like that. But the real reason we at this point of time very difficult to kind of tell you. And the spread, I would not say that spread at this point of time is too difficult. It has gone very significantly lower. Demand is slightly gone down on this account. And therefore, slightly the inventory build-up is taking place.

**Ashwini Agarwal:** Okay. And sir, in the first presentation that you had released in Feb, you had also pointed to a longer term trajectory of doubling capacity, which you again referred to right now. What would that entail in terms of capex? And are you looking at greenfield, brownfield? Would there be any sort of government incentive that you will be eligible for PLI or anything like that, any broad outline?

**R.S. Jalan:** Yes, Mr. Ashwini, very right question. First and foremost, I think in the first introduction last time, I have indicated that we have gone for around INR 1,045 crores of capex plan, which we have signed with the government of Tamil Nadu. And in that, almost around we have already invested something around INR 350 crores. And this current INR 250 crores, which we are talking about is a part of that, which will be happening this. So balance, you can say broadly another fully around INR 500 crores of investment will be likely to happen. Okay.

And like I just said, if you look at the kind of operational margins of EBITDA of around 17% to 18% kind of, even if I take 18% of the margin on the range bound of 17% to 20%, which we have achieved in the past barring this few quarters of the longer term in the industry. And right now, we are talking about something around INR 1,000 crores, INR 1,300 crores kind of a turnover this year. Okay. So if I take those kind of a number, I don't see our debt equity ratio or my overall leverage will be more than anywhere closer even to 1:1 also, let me put that way.

**Sunit Agarwal:** So, I mean, if I, you know, take your numbers, and let's assume that, you know, not everything goes to plan, even then you should be somewhere in the ballpark of 1250 crores in revenue in fiscal 25, and maybe about 1400 in current fiscal 26, and 1550 or so in fiscal 27. Would that be ballpark in the right range revenue outlook?

**R.S. Jalan:** Mr. Sunil, as you rightly said, at this point of time, predicting something is very difficult at this point. But yes, if I take the last year number, and then I said that another this 40,000 spindle full benefit will be coming in that, if I take all those that this, this equation will not change, probably a number looks to be a reasonable number on that.

**Sunit Agarwal:** Okay. All right. Thank you, sir. All the best. I will come back.

**R.S. Jalan:** Because my finance just highlighted me that after completing the turnover to this to the segment two times, our debt equity ratio will be only 0.39.

**Sunit Agarwal:** Which year sir?

**R.S. Jalan:** We are talking about 2029.

**Sunit Agarwal:** All right. Thank you so much.

**R.S. Jalan:** This is a peak, if I can say, overall in the growth journey, this 0.39 becomes the peak in our even up to 2030 also.

**Sunit Agarwal:** Okay. And your working capital days is pretty much, you know, going to remain steady. I mean, the terms of trade in this business won't change.

**R.S. Jalan:** Yes, we are keeping that as a constant factor of the number of working days, working capital number of days, the revenue will increase automatically the working capital, because the number of days, it will increase, the amount will increase, and that we have factored into the cash flow.

**Sunit Agarwal:** And that's a fairly standard thing. There is no change in terms of trade. Thank you, sir. Thank you so much.

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

**Prerna Jhunjhunwala:** Hi, sir. I just wanted to understand your strategy for value addition and forward integration. You forward integrated into grey fabric. What is the thought process for forward integration beyond that?

**R.S. Jalan:** As you rightly said, last year, we have started the journey of our fabric business. And that fabric business was a period of stability in the 23-24. And this year, 24-25, we are taking a bigger jump on to that area. Of course, in that time, we don't have our own manufacturing set up in 24-25. This is all our yarn and we are getting it converted outside and exporting this product and also selling it in the domestic market. So probably 25-26, we will be going for our own manufacturing set up into the weaving and knitting both.

We have that plan, number one. Then we have a plan because as you know that the PM Mitra Park is also one of the schemes the government has announced that is getting stabilized into that in Tamil Nadu also. So we will be going, our dream at this point of time, going up to the finished fabric, means dyed fabric, going up to that level. Of course, we are looking at more possibilities on the other value-added product, which is what you call functional fabric. But at this point of time, I will not be having too much of detail on that. That's only on the vision board at this point.

Probably in the next few years, we will be going for the functional fabric also into our value addition.

**Prerna Jhunjhunwala:** That's great. That's good to know, sir. And sir, what is your experience till date on the work that you're doing on the fabric business? I mean, is it more on the functional side that you are exploring right now or it is the normal apparel fabric that you're doing right now?

**R.S. Jalan:** Right now, what we are doing is more on the apparel side. But like I said, we are building the capabilities of functional fabric. And once that happens, then probably we'll go for a functional fabric.

**Prerna Jhunjhunwala:** Okay. Understood, sir. And sir, I know you mentioned that the demand drop is very recent, but could you give some color whether it is domestic, international, or whether it is yarn prices dropping versus cotton prices? Some color on what has happened very recently?

**R.S. Jalan:** Yes, I will give you what about at this point of time, we could capture on it. One is that globally also like country like Bangladesh, and there's some kind of a because of the foreign currency crisis and some of the demand dip also from the importing country like US and Europe, some slowdown. So therefore, what they are doing is they are not taking a long position on the raw material, which is a yarn. Okay. And because of that, we are seeing a kind of a dip at this point of time on that. So that's one.

Even in the domestic market, I would say it is more towards the de-stocking and more of a not going along on that. And one of the reasons probably again, this is a kind of a very quick assessment of the situation. Cotton prices is also softened in last because of cotton prices was X, went up to INR64,000, INR65,000, then again started coming down.

And it is again come to the level of around 59-60k. So probably the trend of that also gets to the consumer also means I'm talking about the manufacturers of the fabric, that I should I take a longer position on the yarn, there may be likely to be the softer because the raw material prices are also going down. Probably that if I can attribute this could be the one of the reasons.

But longer than honestly, my team doesn't believe that is going to be sustained. And definitely '24 and I'm maintaining what I've said in the last quarter also. I personally believe that '24, '25 should likely be to be better than '23, '24 for every textile industry.

**Prerna Jhunjhunwala:** Okay. And what is your outlook on cotton and how are you building on the stocks for this year?

**R.S. Jalan:** Well, unfortunately, we have a very sufficient stock of raw material at a high quality of the product because we have to procure because we are in a high quality segment of the market. So we have procured the cotton sufficient quantity of domestic as well as the international cotton. And fortunately, we bought at a time where even today on these prices also, we don't have a kind of a high price cotton into our inventory. So we are very competitive on that side also.

**Prerna Jhunjhunwala:** Okay. So you would have told for the next six months or later?

**R.S. Jalan:** Yes, it is almost around five, five months.

**Prerna Jhunjhunwala:** Right. Okay. Understood. And so one more thing, just wanted to understand the 17% to 18% margin guidance that you're giving over long term. What factors should come in for that to materialize? Because you've seen spinning not performing well for the last three years.

**R.S. Jalan:** See, I think, again, I would like to highlight that what we have achieved in the past. And if you look at our number, you will find that these numbers are not very significantly different than what we have achieved in the past. But a couple of factors which we are adding into this, which will add to kind of our bottom line or the EBITDA margin.

One is our products premiumization, which we are doing with that segment, which we are trying to cater as we have been doing before to different than that to go into the premium customers. Our footprint into the export market also into the premium segment of the export market. We are focusing on that. That's one area which will definitely help us to kind of enhance our margin.

Second, which is again, very important is our carbon footprint or means, I would say, energy cost or the power cost. Because of all this green power which we have invested, this will insulate or this will also reduce our power cost also.

In addition to that, all other efficiencies, all other are there. Maybe you know that a lot of operating issues are there. That is also getting added into that. Hopefully, this number will not be a very difficult number to achieve.

**Prerna Jhunjhunwala:** Thank you, sir, and all the best.

**Moderator:** Thank you. The next question is from the line of Sarvesh from Spark Capital. Please go ahead. Hello. Sarvesh, are you there?

**Sarvesh:** Yes. I have two questions. One is, the first one is regarding the debt, which you have said that you're going to raise nearly INR 200 crores of debt if I've heard correctly. So, how's going to be that? Like, is it going to be some through debentures? How are you going to raise that? That is first. Second is, in your value added products, can you give a little bit of insight on the margins of what is the value product, what is the margin vis-a-vis the normal products, established products? And one more thing, recently, the government has actually withdrawn that 11% import duty on that long stable cotton. So, did it have an impact on our top line?

**R.S. Jalan:** Yes, Mr. Sarvesh, let me give you, first, what you asked me that how I am going to raise this debt. This is definitely as we have been doing in the past with the proper banking loan. We are not looking for any debt, debentures, some loan, which we can say. And in terms of the working capital, we have a sufficient working because right now we are not using any working capital. That working capital, we have a limit and that we will be using from there.

The second question which you asked, I don't know, 11% of the duty, yes, definitely 11% duty on the long stable cotton has gone down. Definitely, that will make advantage to the Indian producers or the yarn producers because they will become more competitive into the market of export market. Definitely, that will help any spinning industry or any textile business.

Third question, what was your second question? Margin on value added. See, like Mr. Sarvesh tell you, this is a very difficult kind of a situation because every product has a different margin. But generally, if you can ask me, if I can tell you the normal product when I sell and the value added product which I talk about, margin will be in the range of around 2% to 3% because the extra margin definitely will have. Maybe in some products it is a 5%, some products it will be 1% because depending upon the count, depending upon the cotton, there are many factors are there, which segment you are selling, which market you are selling, there are many variations are there. But general guidance is around 2% to 3% margin in the pre-segment definitely will be there.

**Sarvesh:** Okay, I was just asking one thing that after the lifting of this import duty, how much impact did it had on our top line?

**R.S. Jalan:** No, at this point of time, it's a very, I would not say at this point of time, significant impact, you can see that because it recently has been done. We have certain cotton, those cottons which we have procured in the past also and which we have taken in advance. So, in terms of the cost wise, we don't have any significant advantage or disadvantage on the inventory what we have right now. But in the future, yes, definitely the offering which we are giving to the consumers or for the export definitely will become more competitive.

**Sarvesh:** Okay, I wish you all the best. Thanks.

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

**Amit Khetan:** Hi, sir. Thank you for taking my question. So, just wanted to understand, does our Q4 volumes reflect the full capacity expansion or should we expect more volumes going forward in FY'25?

**R.S. Jalan:** In terms of the quantity, Amit, I don't think you will be having a very significant amount of volume. And let me clarify this point. In some of the units, depending upon the count which we are running, are we running a coarser count, are we running a finer count, probably the volume, quantity may change. But yes, I can only tell you that in 2024-25, overall revenue will grow. Okay. So, in terms of the rupee, revenue will grow. We are estimating at this point of time something around 20%-30% kind of a revenue growth should happen. So, 20-30% kind of a revenue growth should happen because of this new capacity which has been built and some of the Debottlenecking which we have done in some of the existing units. That should happen.

**Mit Khetan:** Got it. No, my question was basically this Q4, 98% capacity utilization that you are talking about in the presentation, that is reflected on the entire 250,000 of capacity, right?

**R.S. Jalan:** No, 225,000?

**Amit Khetan:** 225,000. Okay. Yes, sorry. Got it. And second question was, our gross margins have been flat quarter-on-quarter. Is this just a timing issue where we were holding some high cost inventory at the beginning of the quarter and we should expect this to correct going forward?

**R.S. Jalan:** No, you are talking about the Q1. There is a 2% increase as compared to the third quarter, right, from 8% to 10%.

**Amit Khetan:** No, gross margin I am talking about, not EBITDA margin?

**R.S. Jalan:** That number at this point of time, I don't have, Amit. My understanding is the EBITDA margin is better. So surely my gross margin should also be better. This is what the logical, but right now I do not have a number, Amit. I can give you an offline on that.

**Amit Khetan:** Sure. Thank you.

**Moderator:** Thank you. The next question is from the line of Rishabh, an individual investor. Please go ahead.

**Rishabh:** Sir, wanted to understand much deeper about how does the cotton spread works out, right? And how is the increase in cotton prices passed on to the consumer, to the customer, to your customer? And what sort of time lag is there in passing the increase or decrease in cotton price to yarn price?

**Rishabh:** How does the cotton spread work? Like how is increased cotton price passed on to the customer? And what sort of time lag is there in passing the increase or decrease in cotton price to yarn price?

**R.S. Jalan:** See, this is a very valid and very important question. But let me tell you my experience of last many years. There is no direct correlation between these two. There are many factors which works and probably sometimes the spread is more and sometimes the spread is less. But if I took it a slightly longer terms, and if you can see the trend, I cannot say that it is a correlation is one is to one but generally takes three to six months of time kind of a situation if there is a significant amount of variation is there in the cotton prices. But it is not going to hold true each and every time because market demands are situation is what and that of the yarn is also very important.

**Rishabh:** Okay. So let me ask one question, right? So what key drivers which are out of our control, right, which are market driven, will lead to such increase in EBITDA margin, right? There must be some drivers, right, which cost you to earn 28% margin in FY'22 and which are causing you to earn 10% EBITDA margin right now. What are the drivers, sir?

**R.S. Jalan:** No, very rightly you said, Rishabh. The driver is only one market force. You see, '22 what has happened is that there was a kind of an extra demand because of the pent-up demand, we call it, and because of that there was a kind of a surge in the yarn prices, number one.

Second, as you rightly said, at the time, the inventory advantage of the cotton was also there because at the time the cotton prices has also gone up. If you remember that even the Indian cotton has gone up to INR 100,000 also. So these are the two factors which is kind of a given, but it is not only attributed to the cotton prices only, it was also because of the demand-supply.

**Rishabh:** Got it, sir. Just one more question. I understand 40% of your capacity is on the synthetic side. So wanted to understand who are our suppliers for the synthetic fibre? And how does our prices compete with players who are supplying you the synthetic fibre, who actually make the synthetic yarn as well?

**R.S. Jalan:** No, basically we buy the synthetic, means the polyester or the viscose, we buy from the people like Reliance or Grasim, and things like that. But they do not produce the synthetic yarn out of that.

**Rishabh:** All right. Okay. Thank you so much, sir.

**Moderator:** Thank you. The next question is from the line of Aditya Sen from RoboCapital. Please go ahead.

**Aditya Sen:** Hi, thank you for the opportunity. Sir, the first question is on the 1.5x capex plan that we have. Do we have a timeline for the same?

**R.S. Jalan:** Yes, Aditya, as I said that if you look at earlier discussion also on this call, like just now, like last year, we have done a 40,000 spindle. This year, we are taking around 25,000 spindle. Then I just mentioned to you that next year, we are looking for on the value added of the fabric and knitting and the weaving segment. So that way, in next four years to five years, we will be completing this, our top line going to the double than what it is today.

**Aditya Sen:** And my second question is about the delay in the capex of this 25,000 spindle. Earlier in last call, we mentioned that it is about the commissioning Q4 FY '25. And now it has been pushed to Q2 FY '26. So is there any reason for the same?

**R.S. Jalan:** No, Aditya. Basically, this project, some portion will start in the last year of, means last quarter of this year, but full completion will happen in the May and June next year only because of some delay in the machinery from the supplier likely to happen. And that is the only reason, no significant reason for that.

**Aditya Sen:** And about the 40,000 spindle capacity that we have as of now, what is the utilization in this one particularly?

**R.S. Jalan:** All the, we have not 40,000, we have total 2,25,000 spindles, right?

**Aditya Sen:** We added last year.

**R.S. Jalan:** All 98% plus, full utilization of every machine.

**Aditya Sen:** So here I fail to understand how we will increase the volume in the coming year. And if we are not going to increase volume, then how is revenue going to increase by 20%, 30%?

**R.S. Jalan:** Let me complete you. Let me tell you. First and foremost, I have mentioned in my earlier question is that some of the debottlenecking which we have done last year, and because of that the volume, though the spindle will not change, but our volume will increase.

**Aditya Sen:** Understood. Thank you for this. And last one, this 40,000 spindle capacity is going to give us at least INR 300 crores of revenue that you said. And so the upcoming 25,000 should give us roughly INR 190 crores of revenue by unit remitted simply I am saying, and you are guiding INR 250 crores of revenue from that 25,000 spindle capacity. So I fail to understand this gap of how is this?

**R.S. Jalan:** I will explain. I will tell you. I will explain you Aditya. See, in the spinning business, you cannot multiply the spindle with the revenue because it depends on which count you produce. With the same 2.25 lakh spindles, somebody may be having maybe INR 2,000 crores of turnover, because of what kind of count which he makes. Okay. And if you make the coarser count, his total volume will be higher, much significantly higher. And if he makes, if I make 100 count, my volume will come down very drastically. Okay. So this 25,000 spindle which we are implementing, it will be slightly coarser than the 40,000 spindle. And because of that, my overall revenue will be higher per spindle.

**Moderator:** Thank you. The next question is from the line of Akshay Kothari from JHP Securities. Please go ahead.

**Akshay Kothari:** Thanks for the opportunity. So what is the difference between established products and value-added products? Is there a differentiating factor on the basis of count and the quality of cotton? Or is there anything else also?

**R.S. Jalan:** No, very valid question you have asked, Akshay. See, value-added, there are many kinds of value-added products. First, as you rightly said, different cotton quality. Like if I am producing something from Pima, it is a value-added product, because that is being used for a specific purpose. Okay. Or the Egyptian cotton or the Australian cotton, that's a value-added product.

That's one category. Second category is that which segment which you are, like suppose we are producing 40 count, then this end-use of that can be different. Suppose I am supplying to the dyed segment of the fabric for certain, that's value-added.

But if I am giving to some other end-use, probably because there the dyeing is not that critical, so there is a different segment of that. So, many factors are there which classify the value-added product. How the end-use of that product is there, that defines the value-added. I hope I have been able to answer your question.

**Akshay Kothari:** Okay. So, secondly, we track this sector closely and generally what we have been hearing is, even if you go to the finer counts, the capital efficiency remains same on a coarser count versus a finer count, because it will take more time to make a finer count. So, is it true? Because the margins may increase in value-added product, but then a set term would reduce in a value-added product. So, capital efficiency would remain the same in both of them, right?

**R.S. Jalan:** No, I don't think so. That's your understanding is correct. You said fine count and coarser count. This is different than the value-added count. Like I just explained, 40s count, which is a standard measurement count, 40s count. There is a segment which is a general commodity and there is a value-added segment. So, production from the machine will be same. However, your realization will be better and therefore your margin will be better than that, right? Now, when you say assets turnover, assets turnover in the finer count will always be lower as compared to the coarser count.

However, because you see, I need to have a lot of time to explain to you on this, but in general, I can tell you that the volume gets changed, the turnover gets changed, your assets turnover ratio gets changed depending upon which count, coarser or finer which you produce. However, margin, probably depending upon which segment which you are in, can change a little bit on coarser or the finer count. It will be the margin. But if you calculate the profit per kilo, you will find in the finer count, your profit per kilo will be much higher as compared to the coarser count.

**Akshay Kothari:** Yes, sir, but again, if the finer count will take much more time to produce than coarser count, right?

**R.S. Jalan:** That is what I said, we just know that the volume will come down very significantly. So, if you want to understand, we can have an offline discussion on this so that we can explain you more detail about it.

**Akshay Kothari:** Yes, sure, I will do that. Sir, second question which I had, do we stand out to benefit if in future farm bills are implemented because the cyclical nature of this industry would change because contract farming would come in place or not? Or we are already doing that?

**R.S. Jalan:** No, we are not doing contract farming at this point of a time. And probably at this point of a time, we don't have a plan also to go for contract farming. Okay. So, I don't see how that will shape up to our, because that's not in our business plan.

**Akshay Kothari:** If in future farm bills actually get implemented, so there is a provision for contract farming. So, what would happen is the cyclicality of this industry wherein we actually get hit a lot by the cotton price fluctuations and cotton yarn spreads moving not in our favour. That would reduce, right?

**R.S. Jalan:** I personally believe no. Okay. See, Aditya, what we can do is, we can have an offline discussion because we have some experience on the contract farming we have done in the past.

**Akshay Kothari:** Okay, sure.

**R.S. Jalan:** Therefore, I don't think at this of a time, it will be too long a subject to discuss, but we can always have an offline discussion to explain you that. But we don't have any plan to go for a contract farming. Okay.

**Akshay Kothari:** Sure, sir. Thanks a lot and all the best.

**Moderator:** Thank you. The next question is from the line of Deepak Kumar, an individual investor. Please go ahead. Hello, Deepak. Can you hear us? Hello, Mr. Deepak, can you hear us? As there is no response from the line of current participants, our next question is from the line of Lakshmi Narayanan from Tunga Investments. Please go ahead.

**Lakshmi Narayanan:** Thank you. A couple of questions. The first is that since your revenues track the cotton prices, how are you confident of giving revenue guidance because it's a factor of how the cotton prices pan out? Or is it that it is based on the spread which you are convinced of?

**R.S. Jalan:** No, very, very valid observations. Frankly speaking, this guidance which we are giving is based on the, at this point of time, what is our revenue per kilo or per spindle and things like that. This may change also. So you are right on that to correct us that this may change in going forward. If the value of the yarn price goes up or goes down, definitely that impact will be there. So I stand to correct myself on that.

**Lakshmi Narayanan:** Got it. It will be good to understand what will be your EBITDA per ton or EBITDA per kilogram, how you think it will move once all the new capacities come. Because you are talking about higher EBITDA margin, which if you achieve, would really put you on the top of the yarn slash spinning mill. I just want to understand how this EBITDA per kilogram would move from now to then. Where is it now and how it will move?

**R.S. Jalan:** See, first and foremost, we never track the EBITDA per ton. That's not the way we look at. We look at the NOV, which is a net output value. And we look at the EBITDA margin. Because as I said, depending upon the demand supply situation, the quantity of the product can change, like we did some de-bottlenecking and things like that. Now, coming back to that trend which we have given, why we are so confident of 17% EBITDA margins, which I have just answered in a few questions before. That if you look at our historical trend also, if you look at slightly longer terms of our average margin, you will see that our average margin is around 17% to 18%. We have achieved in the past in that range, okay. That is number.

So therefore, we are talking from a realistic perspective what we have achieved in the past. Now, yes, in this business, fluctuations do happen. And therefore, if you look at a quarter-on-quarter basis, or you can say on a year-on-year basis, definitely you will not get that number. But if you look at two years down the line, two years average, or three years average, or four years average, you will find that 17%, 18%. The third point, again, very important is why we are different than the other competition in this business, okay. A few important points.

One, almost a major past part of our power consumption is our fixed cost, in a way. Because we have our own captive generation of green power. That's one. Our cost of many fixed costs, like your labour cost, we are the lowest, almost around 3% to 4% labour cost. Our utilizations are 99% plus. Then last but not the least, the segment which we are capturing, where the volatility is slightly lower than the commodity of what you produce. I don't know, you must be tracking a company called Ambika. If you look at Ambika, their margin fluctuations are a little lower. So that is the journey which we are going, to some extent we have gone, the journey which we are going in that segment, where probably the fluctuation will also get reduced.

All these factors will, past experience, past performance, and all these additional factors which I have just said, we are confident that we will be able to achieve this 17% to 18% margin.

**Lakshmi Narayanan:** Got it. The next question is that you are putting this capacity, but are you demand starved that whatever capacity you put up can actually get automatically absorbed from your existing clients? What gives you confidence that this capacity will be rightly utilized?

**R.S. Jalan:** See, first and foremost, again, experience, because you probably know that the journey of our company in last many years, we have demonstrated to our investors, of course, that was not a part, separate company, but we have demonstrated from a sick company to the, like you just rightly said, 17%, 18% margin, which is top of the bracket. We have demonstrated that we have our ability of understanding the market and understanding the customer's need. That is number one.

Secondly, as you know, this market is a huge market. Okay. Only thing what you have to do is you have to place the product, right product, to the right customer. You have to identify the right customer and you have to produce a unique, unique is a wrong word, I would say. Customers need specific to that. Many of our customers, they are very large consumers and depending upon how much we produce, we are very confident that selling will not be an issue.

However, yes, as you rightly said, it may not happen that these 40,000 spindles also, we took some time, three to four months of time kind of stabilizing the overall, what you call, product basket and that work we have already started with those customers. This 25,000 spindle I'm right now talking about, this segment is basically a complement to the sum of the product which we make in the hojri segment, where we make some of the finer count like 40s and above or 30s and 40s and above. So, this 25,000 spindle will add to the sum of the other requirement of the same consumer which is in the coarser count.

So, that way we are confident that we will be able to do that. We know the product, we know the market, we know the customer need and this market is a huge market, only you have to understand the need of the market and you have to cater to that and you have to build the capacity based on that only.

**Lakshmi Narayanan:** We see that in places like Tamil Nadu, a lot of spinning units are either getting shut or sub-optimally utilized. Does it make sense for you to, acquire and then fast track your growth or you think that greenfield is or organic way of growing is better for you?

**R.S. Jalan:** Very valid question. Let me be very honest with you. I think very few people will be asking this question. Yes, in the past we have looked at these possibilities and the couple of challenges which you face here. First, can I go for a smaller unit? No, we cannot, we should not. Why? Because the time and energy which you require to set a bad performing unit to a good because you don't need only the capital, you need the culture, you need the worker, you need many things in that, okay?

And that is very hard to kind of a lot of time is required on that because I have seen this pain in this mill itself in last 25-30 years, how the sick unit which was a closed unit to the stage where we are, what kind of hard work is required, what kind of a mindset change is required. So it is very difficult, yes, but if you get a larger size of the unit, yes, we are interested and we will be, we are looking at that possibility.

**Moderator:** The next question is from the line of Yash Tanna from ithought PMS. Please go ahead.

**Yash Tanna:** Thanks for the opportunity. Sir, I would like to understand at what spreads would we, make 14% to 15% EBITDA margins, which is your five year average margin, which you are also guiding for, the medium term. And will the improvement in yarn prices just be demand-driven or will it be something else as well?

And, following up on that, you also said that the current spreads have taken a hit in the last two weeks. So, are these spreads lower than the Q4 spreads that we have witnessed, and will this impact the margins in the next quarters versus the previous quarters?

**R.S. Jalan:** See, first and foremost, let me ask, let me answer you the second question first. See, like I said, this kind of a fluctuation will happen in this business. Based on that, can I predict what will happen in Q1? No, I will not be able to predict. Okay, because the markets are fluctuating. Today, I may be talking about, yes, it can be going down by 2%. Tomorrow, next week, I will see that there is a change in the market scenario. So, these kinds of predictions, probably, we will not be able to do that. Okay.

The point number one. Let's come back to your question number, first question. See, basically, as I mentioned in the earlier many questions on this, in the past, we have demonstrated 17%, 18% of the EBITDA margin. And we track our performance based on these two things. One is the EBITDA margin. And second is the value addition. We look at, frankly speaking, value addition per ring frame. Because ring frame is the same, that is a limiting capacity for me, right?. I look at what is the value which this machine is giving to me either I'm producing a fine count or I'm producing a coarser count. How much value this machine is giving.

That track which we do that and as I mentioned to you in the past based on that tracking we have seen that we have been able to perform and we have been able to do this 17%, 18%. Now, many other factors will be there, what price cotton you have bought, what yarn price currently is there, there are many factors are there, but in the long run we maintain that benchmark of the value addition per ring frame and the EBITDA percentage over the turnover.

**Yash Tanna:** So I mean, I was just trying to understand that the revival in yarn prices would help increase our EBITDA margin that will be one of the factors you mentioned?

**R.S. Jalan:** Obviously if the yarn price goes up automatically your EBITDA margin will improve.

**Yash Tanna:** Correct. Okay. And okay you said that at what spreads would you be able to make that amount of margin is something that you cannot tried as of now is what you said?

**R.S. Jalan:** Yes, I will not.

**Yash Tanna:** Sure. The second question is, I would like to understand more in the MOU with Tamil Nadu government. Now, you said, broadly we invested some amount and then next year again, there'll be INR 200 crores, INR 250 crores of investment. So that leaves you with the balance INR 500 crores of investment. Now, I would like to understand this extra INR 500 crores where will this be deployed? And this capital that is being deployed, will that bring in incremental ROE versus the steady state business and if there are any benefits that you would receive from the government on the same?

**R.S. Jalan:** Like very rightly said, you said yes, that we have signed and we are expecting some of the incentive from the Tamil Nadu government. How much that number will be? That's under the consideration of the Tamil Nadu government. We had some discussion with them. We are looking for more and they are giving us little less. So that number at this point of time, I don't have a number to share with you, but number will be a good number. The second, as you said INR 500 crores already committed which is under implementation INR 300 crores already invested, INR 200 crores under implementation, INR 500 crores and the future we have another INR500 crores which we have to invest.

And I have said weaving, knitting, and expansion on the second leg of, as I said, PM Mitra, there we go with some dyed fabric and those on and in addition to that, I said power which is a green power, we have a plan to invest there also. All put together, we have an investment plan of INR 500 crores. I've given that answer also how I'm going to raise the resources of financing this INR 500 crores.

**Yash Tanna:** Sure, sir. And that INR 500 crores probably would bring in a higher return on capital versus the steady state business. Is that understanding correct?

**R.S. Jalan:** I would say that you should assume that the EBITDA margin or the return on capital what we are right now getting. Right now means I'm talking about longer terms or the average, we will be maintaining a similar kind of thing, maybe slightly 2%-3% here and there.

**Yash Tanna:** Sure, sure. Got it. Thank you, sir and best of luck.

**Moderator:** Thank you. The next question is from the line of Keshav Garg from Counter PMS. Please go ahead.

**Keshav Garg:** Sir, I wanted to understand that our margin last year FY24 was 8%. Now, sir, if we look at our investor presentation page 9 then it shows that our spread which used to be around INR 78, INR 79 in FY18-19-20 is at INR 87 in last year, but then if we come to page number 14 sorry sir page number 13, then, sir, we can see that the operating margin that the company used to do in FY18 when the spread was INR 78 is more than the margin that we were doing 15% margin. Sir, it's on page number 19.

**R.S. Jalan:** Can I request one thing? Can I ask my finance team to have an offline call with you to explain you this number?

**Keshav Garg:** Sir, it's a very simple question. My point is, sir, when our spread was INR 78 in FY18 then our margin was 15%. Now, our spread is INR 87, but our margin is half of what we were doing in FY18. So, what explains this?

**R.S. Jalan:** See, basically, I don't know which page, can you refer the page number?

**Keshav Garg:** Sir, margin is given on page number 19 of your investor presentation.

**R.S. Jalan:** One minute, sir, please read that statement. This is the industry number has been given. This is a CRISIL report which has been published there. It is not our number.

**Keshav Garg:** Sir, so basically in FY, but since we are talking about the average operating margin of some 16%, 17% and this is we are taking 15%. Sir, so I mean, the point is that pre-COVID, we were doing INR 78 spread and making around mid-teens margin and now that margin has come down to 8% even though the spread has gone up to INR 87?

**R.S. Jalan:** That's the point I'm trying to tell you, sir, that number which you are trying to correlate that is not our number. These numbers are of the industry number and this number cannot be correlated with our number.

**Keshav Garg:** Okay, sir, I understood your point. Sir, just one last thing, sir, for this financial year FY25, you mentioned INR 1300 crores top line. Sir, what kind of ballpark operating margin you think we can achieve in this financial year FY25 in your best judgment?

**R.S. Jalan:** I think I've already said that it is very difficult at this point of time to give any guidance on the margin. I have corrected also myself that this INR 1300 crores which I have said may change depending upon the yarn prices also which I have corrected myself in one of the earlier questions which I have said. We are not giving any guidance for the FY25.

**Keshav Garg:** Sure, sir. Thank you very much.

**Moderator:** Thank you. The next question is from the line of Saket Kapoor from Kapoor and Company. Please go ahead.

**Saket Kapoor:** Namaskar, Jalanji. Sir, with the capacity addition of 40,000 tons which we have done last year which quarters has this facility gone and we have ramped it up completely as of now as you have mentioned that 98% is our utilization level?

**R.S. Jalan:** Yes, Saketji, as I said, the overall it has taken some time and the last quarter this capacity has been fully utilized.

**Saket Kapoor:** Okay. So, Q-o-Q what is the volume increase, sir, in percentage terms, in tonnage terms?

**R.S. Jalan:** You are talking about the FY24-25?

**Saket Kapoor:** Yes, December 23 and March 24, what is the volume increase?

**R.S. Jalan:** I don't have the right number that, that may be offline you can take that number.

**Saket Kapoor:** Okay. And sir currently with March exit what are the current yarn yield means how has the month of April been in terms of the yarn demand? Since it is a spot market and you were already alluding to the fact that it is hard to give number on the margins, but how has it been done in the month of April, sir?

**R.S. Jalan:** See, April number, as I mentioned to you, Saket ji, in the earlier discussion, first few, one week or two weeks was good and after that there was some kind of a drop into the market and I have also said some of the inventory built up has happened in the next two weeks, which I have already said.

**Saket Kapoor:** So, the prices on an average are similar to what our March exit was. This is what our understanding should be.

**R.S. Jalan:** Very difficult at this point of time to get you that number.

**Saket Kapoor:** Okay. Now, the point about the debt number, sir, I think so we are close the year on both working capital and long-term debt. So, going ahead also with the capex plan, what should be our debt for the long term and what is our cost of fund currently? I think so non-current liabilities are to the tune of INR 29 crores, whereas current liabilities are INR 42.7 crores.

**R.S. Jalan:** Two things, Saket ji. I have already said that my debt will be peaked at the debt equity ratio 0.39 in (FY) 29. As you rightly said in the March 24, we are almost very minimal of the debt. I will just tell you the number. INR72 crores debt we had and likely to be around INR156 crores next year. And debt equity ratio right now is 0.05 and which will go to 0.11 in 25.

**Saket Kapoor:** Sir, one very basic, one small point, sir. We are having the same auditors which we have for our parent company GHCL. And what should be the expenses then on the audit fees since the entity which currently housed in textile is a very smaller one than the one which were housed as a combined entity in GHCL and GHCL textile.

And I think the last year we paid around INR1 crores rupees as an audit fee. So keeping last year as a new year for reorganization of the company, how should this cost being aligned to a company of lower top line than the big entity GHCL Limited. So what rationalization can we expect?

**R.S. Jalan:** Two things, Saket ji. One, definitely we want to have a very reputed auditors so that the data is 100% secured for our investors. And obviously when you go for this kind of a level of auditors, definitely you will have to have a cost of that. So what you call authenticity of the data is very, very important from a larger interest of the shareholders. That is number one. Second, and therefore the cost will be higher.

Second, volume could be different or turnover could be different but the amount of work remains the same. And therefore, I am not saying that the amount will be same but it cannot be very significantly lower than or it can be a bigger amount on the audit. For that if you have to go, we have to go for a different quality of auditing which probably will not be right for an investor like you also.

**Saket Kapoor:** Right sir. Thank you sir and all the best to the team. Thank you.

**Moderator:** Thank you. The next question is from the line of Kanika Gupta from SG Investments. Please go ahead.

**Kanika Gupta:** Thank you for the opportunity. So I just wanted to know what is the current ROE and ROCE level? What do you look at? That is the only question.

**R.S. Jalan:** See Kanika, if you look at my current ROE is not very good or the return on capital employed is not very good. But if you look at slightly longer term, as I said, if you look at on the EBITDA margin of 10% probably on a quarter on quarter basis because depending upon your, because right now in the March, we have a very high level of inventory as I mentioned to you, five months of the inventory. So therefore your capital employment at this point of time is high. So this ROE at this point of time is very low. However, if you look at the longer term, your return on capital employed will be in the range of around 11% to 12%.

**Kanika Gupta:** Thank you so much. Thank you.

**Moderator:** Thank you. The next follow-up question is from the line of Rishabh Garg, an individual investor. Please go ahead.

**Rishabh Garg:** Yes. Hello sir. I wanted to understand more about the de-bottlenecking that we have done, so what are the kind of ROC, what are the kind of return on investment and the payback periods which we have seen earlier? And do we also have any scope of doing further de-bottlenecking?

**R.S. Jalan:** No, very valid question Rishabh. Basically, de-bottlenecking only enhance the overall volume of the business. So what we do in the de-bottlenecking is that whatever the preparatory work, I'm slightly going slightly technical, whatever the ring frame we have, we start to put some of the preparatory machine on that, that increases our volume.

The second advantage which we get is we increase the product basket also by putting some more preparatory. We allocate lesser number of ring frame on one product and therefore my product basket gets enhanced. Overall, generally on a de-bottlenecking, your margins are, your return on capital employed is definitely going to be better. How much that number will be, that always depends on which segment or which time which you are doing it and which line which you are doing it, whether you are doing in a premium segment, you are doing in all those things. But definitely the margin or return to capital employed on that de-bottlenecking will be better. The second point about you, as you rightly said, what was your second question?

Is there any opportunity? See, at this point of time, we don't have any plan for 24-25 for any de-bottlenecking, but in the future, if we find that kind of opportunity, then definitely we'll be looking at that.

**Rishabh Garg:** Also, sir, can you give a mix of how much of your yarn ends up in a home textile?

**Moderator:** Sorry to interrupt you, Deepak. Please, we have the next participants.

**Rishabh Garg:** Yes, sure.

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

**Deepak Kumar:** Hello. Yes, thank you for the taking the question. I just want to know more on the customer addition side. So have you been able to expand the customer base in this quarter or any insight on that in the coming year?

**R.S. Jalan:** Yes, Deepak. We have definitely added many customers, valued customers, let me put that way, because that's very important. Adding customers may not be difficult, but adding the valued customer is very important. And we have added some of the export, the overseas customers. And we are also eliminating the marginal customer also. That's also very important for us.

So what we are trying to do, Deepak, is basically focus on the valued customers, not many customers, but small, means basket of the customers should be smaller, or number of customers should be smaller, but they are the valued, high premium customers, and those customers where we can have a larger volume.

**Deepak Kumar:** Okay, got it. Thank you.

**Moderator:** Thank you. Ladies and gentlemen, we'll take this as the last questions. I would now like to hand the conference over to management for closing comments.

**R.S. Jalan:** Thank you. Thank you very much. You see, basically, as I mentioned to you, let me try to summarize what I believe about this business is. First and foremost, this is the first year which we have completed after the merger. Second, this business in a historical perspective, if I look at, has given a decent return on EBITDA margin of 17%-18% in the past. Of course, the last one, one and a half year has been challenging for the industry. And that definitely has made an impact to us also. However, we are in a very different, unique position because of a couple of reasons. One, we have a cost competitive advantage with the industry because of our investment into the power, our experience on the cotton coverage, our segmentation of the valued customer and the valued product, and this journey has definitely made us a significant advantage. The last but not the least, we believe that this business has a long-term perspective for us and we are committed to grow this business. And as I mentioned in my opening remarks, that in the next three to five years, we want to double this business along with that adding the product basket and also adding to some value-added segment like functional fabric or even in the, what you call, segment of the garment's fabric, including the ready-to-stitch or ready-to-cut and stitch the product after doing the dyeing and finishing, we want to go further. So, journey is exciting for us in this business and I am sure that we will be able to give a decent amount of return on our capital and reward to our shareholders. Thank you very much for your participation.

**Moderator:** Thank you. On behalf of Go India Advisors that concludes this conference, thank you for joining us and you may now disconnect your lines.