August 06, 2024

श्रावण – शुक्ल पक्ष, द्वितीया
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 August 02, 2024

In continuation to our earlier communication dated July 27, 2024 and August 01, 2024 regarding Investors' conference on August 2, 2024 and pursuant to requirement of Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed herewith copy of the transcript regarding said Investors' conference held with the management on August 02, 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: 2024.08.06 17:00:16 +05'30'

GHCL TEXTILES LIMITED

Lalit Narayan Dwivedi
Company Secretary and Compliance officer
Membership No.: FCS10487
Encl: transcript of investor call on August 02, 2024

"GHCL Textiles Limited Q1 FY25 Earnings Conference Call"

August 02, 2024

MANAGEMENT:	**MR. R. S. JALAN – NON-EXECUTIVE DIRECTOR – GHCL TEXTILES LIMITED** **MR. RAMAN CHOPRA – NON-EXECUTIVE DIRECTOR – FINANCE – GHCL TEXTILES LIMITED** **MR. MANU JAIN – GENERAL MANAGER, INVESTOR RELATIONS AND FINANCE**
MODERATOR:	**MS. DEVYANSHI DAVE – GO INDIA ADVISORS**

Moderator: Ladies and gentlemen, good day, and welcome to GHCL Textile Limited Q1 FY '25 Earnings Conference Call hosted by Go India Advisors.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star, then zero on your touch-tone telephone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Devyanshi Dave from Go India Advisors. Thank you and go.

Devyanshi Dave: Thank you, Aditya. Good afternoon, and a warm welcome to everyone attending the GHCL Textiles Limited Q1 FY '25 Earnings Conference Call.

We have with us on the call today Mr. R. S. Jalan – Non-Executive Director; Mr. Raman Chopra – Non-Executive Director; and Mr. Manu Jain – General Manager, Investor Relations and Finance.

Please note that the discussion on today's call may include certain forward-looking statements and must be therefore viewed in conjunction with the risks that 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 very much. Good afternoon, everyone. We are pleased to welcome you on our Q1 FY '25 Earnings Conference Call.

Our Investors Presentation has been uploaded on the Stock Exchanges and we trust you have had the chance to review it. Notably, this quarter marks the one year of our listing, a significant milestone that underscores our journey since the demerger. With this, I would like to reaffirm our commitment to sustainable and inclusive growth of our business and value creation for our stakeholders.

GHCL Textiles has established itself as a premier yarn manufacturer known for exceptional quality. Our diverse products portfolio of various synthetic and cotton blends, ranging from 24 to 120 count, cater to the specific needs of our strategic customers. Our journey of gradually shifting from commodity yarn to the value-added yarn is highly satisfactory. We have recently begun to venture into fabric segments through our outsourcing model.

Reflecting on our financial performance:

During Q1 FY '25, our plant utilization was at 98% plus for the quarter, along with the higher production of finer counts. Our revenue increased by 9% on year-on-year, reaching 289 crores. EBITDA margin came in at 10.1%, resulting into an EBITDA of Rs. 29 crore as compared to

Indian Rs. 18 crore during Q1 of last year. Balances remained strong with a surplus net cap of Rs. 5 crore.

The Indian textile industry has been facing demand headwinds for some time with a mixed demand sentiment. Cotton prices had earlier corrected in both domestic and global markets, but now largely stable.

Several exporters from Bangladesh are facing significant challenges, leading to the declining export. While this presents an opportunity for the Indian textile industry, it will face challenges due to capacity limitations.

While this is a general belief that the sector is poised for a recovery, the exact timing of this recovery remains uncertain in near term. However, despite the industry challenges, we believe we have constantly delivered to our operational excellence and connect with the customers.

Our commitment to expansion remains firm. Overall, we have outlined Rs. 1,000 crores of investment, of which 350 crores has already been deployed a year back. We are on track for another 25,000-spindle expansion, which will get completed by May '25, and we will generate an incremental revenue of around 250 crores.

We aim to expand our existing 62-Megawatt green energy portfolio such that the share of our green power will increase from 72% to 85%, thus providing long-term cost benefit and fulfill sustainability aspects.

Additionally, we plan to invest further in setting up capacity by knitting, weaving, and dyeing fabric productions. We want to cater ready-to-cut fabric to our end customers. Our balance sheet is strong without significant leverage on books, which offers us ample room for growth.

In conclusion, we are confident in our ability to navigate the evolving market landscape. We remain focused on investing in emerging opportunities within the Indian textile sector. Our aim is to double the revenue within the next three to five years, maintaining an average EBITDA margin of 17% to 20% in the long run, supported by our value-added products and lean cost structure. The point is to drive continued success, enhance our competitive position, and deliver value to our stakeholders. Thank you for your continued support and confidence in our company.

We now welcome any questions you may have.

Moderator: Thank you very much. We will now begin the question and answer session. Our first question is from the line of Ayush from Servus Capital. Please go ahead.

Ayush: I just have one question. Could you just give some color on the cotton and yarn spread as the current, I mean, last quarter and the current month of July, just to give us an idea of what the spread is currently?

So, I just wanted to understand the spread between cotton and yarn now. The last quarter and the month of July, could you just highlight or give us some color as to what it would be currently?

R. S. Jalan: Ayush, at this point of time, I don't have a readily number of the past spreads, because normally, as a practice in our review process, or what you call it, control mechanism, our concept is more on value addition. But broadly, my team is telling me that my spread is around 122 in this quarter, in FY '25, Q1, okay. July, at this point of time, will be difficult to tell you the number. And this number in the same quarter last year was, I would say that, if we look at, was Rs. 96 in Q1 FY '24.

Moderator: Thank you. Our next question is from the line of Jatin from Swan Investments. Please go ahead.

Jatin: Sir, carry on to the first participant's questions, now as you indicated that the spreads in the first quarter was 122 and which has gone up significantly when you compare it to the last quarter, but when it comes to our margins, our margins were largely flat. So, did we have any one-off expenses in terms of other expenses or employee or some sorts which had taken a benefit of the overall increase in the spreads?

R. S. Jalan: You are comparing, I think, I have compared between Q1 FY '24 versus Q1 FY '25, okay. In Q1 FY '24, my EBITDA margin was 6.7% and in this quarter it is 10.1%. The number which I told you 96 and 122 is based on that.

Jatin: I totally agree that the number which you indicated is on the corresponding period last year. But in the last call, when we indicated a spread of near about 110 and current spreads of 122, so there is almost 8% to 10% jump in the spreads on a sequential basis. So, I just wanted to understand that when there is a jump in a spread on the sequential basis, there is no improvement in the margins. So, what was the reason behind that?

R. S. Jalan: You see, again, let me be very honest on this thing. Our control mechanism is not on the basis of the spread because it depends on the tonnage which you produce, right? If your tonnage is basically because of your fine count and coarser count, your tonnage changes. That gives a different, what you call, spread.

I am just giving you an example. Suppose last year you produced 30,000 ton, I am just argumentative, 30,000 ton. In this quarter, you produced only 28,000 ton. So, your utilization is 98%, 99%, but because of the final count, your volume had gone down. In that, spread will be different.

Jatin: No, sir, I totally understand when you said that on the tonnage wise your spreads would be different, but definitely if you are on the revenue on the sequential basis are largely remain same, when it was 95% utilization in Q4 and currently we are at 98%. So, either there is a mismatch in terms of our understanding in terms of the numbers that you have provided or probably increase in the spreads.

R. S. Jalan: No, I don't think your understanding is wrong. Let me clarify this point very clearly. You are comparing with the sequential basis. If you are comparing from the sequential basis, okay, my margin remains almost EBITDA margin remains the same. So, last quarter means Q4 FY '24, my margin was 10.6% and my margin now is 10.1%, as you rightly said. My even revenue remains the same, 288 against this quarter is 289. So, that way we are on the same page. We are same level what we have been in the March '24. Now you can ask me that.

Jatin: So, that's precisely I was asking with the improvement in the spreads, the numbers would have looked much more better as compared to the last quarter, but…

R. S. Jalan: I think, I am unable to explain to you. I have told you just now that in the last quarter, our volume could have been higher because we don't monitor on the basis of a value, what you call, on a spread basis. So, on the basis of the volume, our number of spread can be different in the different quarter, but the real number to compare, I will give you the number. That also is there. In Q4 FY '24, my spread was 126 versus, no, I am talking about 126, and now it is 122. But you can't compare on that because of the volume disparity. So, therefore, for you, the right number of my comparator, at least for my mill, the right comparator is the EBITDA margin and the revenue.

Jatin: And, sir, second, when we indicated, now we are doing 1,000 crores of investment, of which 350 crores we deployed, and we commissioned our 40,000 spindles, we will be commissioning near about another 25,000 spindles, where we will be spending 250 crores. So, that gives me a total contribution of about 600 crores of the CAPEX. The remaining 400 crores of the investment, where are we making it?

R. S. Jalan: As I said, three things we have added in my opening remarks. Weaving and mixing is the second growth or the value addition which we are envisaging. And after that, the processing plant to make the dye fabric ready-to-cut to be supplied to the end consumer, and consumer is around what I would say, the garment manufacturers. So, that's the journey which we have. We have submitted this plan to the government of Tamil Nadu. Based on that, we have got an incentive approval also from the government. And next three years, we are going to complete this journey of 1,000 crores of investment.

Jatin: And sir, given the current run rate and 288 crores that we did in the last quarter, how do we see the revenue growth for FY '25 because the benefit of the 40,000 spindles should also flow in? So, where do we see our revenue growth for FY '25 when you compare it to previous year?

R. S. Jalan: Yes, you will get a revenue growth of around 15% to 20% growth during this year because of as you rightly said, 40,000 spindles, full benefits will be coming in this quarter, in this year.

Moderator: Thank you. Our next question is from the line of Hemant Soni, an individual investor. Please go ahead.

Hemant Soni: I just wanted to know one thing, like, as you just mentioned that we are targeting a growth of 15% to 20% in this financial year, but we are currently running at 98% capacity utilization, right? And the 25% spindle will come in FY '26. So, what will be the growth drivers? I mean, what will be the reasons behind the 20% kind of growth in FY '25?

R. S. Jalan: See, like just now I have said that if you look at that even in this quarter, our total top line was 289 crores, right? If you multiply that itself in the 4 times, that number of 20% growth you will be getting it because I am comparing this growth of 20% from the last year. Last year, my top line was around 1,000 crores and this year the likely numbers will be roughly around level 50 to 1,200 kind of a number, which is getting translated into current turnover multiplied by 4.

Hemant Soni: So, is it fair to assume that there will not be a quarter-on-quarter growth?

R. S. Jalan: The quarter-on-quarter growth will come only once this new 25% spindle will come in next year, number one. Number two, suppose tomorrow the top line, sorry, the yarn prices go up, the revenue will go up, but not in terms of the volume growth because we are not adding any capacity, new capacity is getting commissioned this year.

Hemant Soni: Sir, are we kind of reducing our growth target? Because I had a look at the previous Con Call snippets and we were targeting around 20% to 30% kind of growth in FY '25. Now you are saying 15% to 20%.

R. S. Jalan: I have given you just now the numbers. I told you that last year my top line was 1,000 crores and this number of this year looks to be around 1,200 crores. So, that comes to around 20%, right? So, I have given you the number of 15% to 20%. The range I have given you is 15% to 20%. I am not reducing our targets. And all this revenue always depends on the per kilo of yarn prices. Suppose tomorrow the Yarn prices goes up by 5%, automatically the revenue will go up by 5%.

Hemant Soni: So, sir, what is your outlook on the yarn prices?

R. S. Jalan: I mean, right now we are looking at these prices are more like stable prices. We are not looking at a very significant jump out of these prices from here onwards, at least in the short term. We don't know in the long term what happens.

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

Amit Khetan: So, Jalanji, if I just look at the gross margin quarter-on-quarter from Q4 to Q1, right? We have not seen a lot of improvement, whereas we would have bought fresh cotton inventory, say, from September onwards, September, October onwards for the new season. So, shouldn't there be an improvement in the gross margins or were we working with slightly older inventory, higher priced inventory? Because some of our peers have reported some improvement in gross margins, which we are not able to see in our numbers.

R. S. Jalan: No, Amit, you are 100% right on this and let me tell you two things. One, definitely the inventory, the way the inventory had been kind of panned out for us where some of the imported cotton inventory which we covered a long time back, that had some implications on our overall cost in space and the new inventory is also coming in. But with domestic cotton, definitely the new inventory has come in.

The second is in the spinning, as you rightly said, some of the peers had kind of shown as improvement, which we have not been able to demonstrate during this quarter. But I would request that we have to look at more slightly for the longer-term perspective. As you know that our longer-term perspective, the way we have delivered the return in the last many years, and I am sure that in a reasonable time, we will be coming back to those situations because the market will also improve. And some of the areas where we need to work on that, we are working on that, and definitely you will find that improvement.

Amit Khetan: And my second question would be, could you give some color on what's happening on the demand situation, both in U.S. and Europe? Has there been an improvement on from, say, what was happening in the last quarter? Or does the situation remain the same?

R. S. Jalan: See, Amit, at this point of time, if you ask me my view about the overall on the textile industry, I would say that at this point of time, I am not very bullish on the textile firstly as a sector and I have a reason to say that. Maybe I may be completely wrong. And number one, like in my opening statement, I said, Bangladesh, there is a huge opportunity from Bangladesh because of the dissonance in Bangladesh for a value-added segment like your garment and mainly for the garment. But India has a constraint of the capacity. These opportunities are going into Vietnam and other parts of the world. Okay. Cambodia. That is number one.

Second, because of this Bangladesh disturbance, even their spinning side, some of the exports which were happening to Bangladesh is also getting disturbed. So, far as the Europe and U.S. is concerned, I am now seeing a big surge into their demand. Of course, we are talking of their inventory, but now the trend Amitji has come is, they still don't want to have a long-term inventory. They want a shorter delivery, shorter-time delivery, less inventory and things like that, because they have burned their finger in the past. So, frankly speaking, in a maybe short term, I don't see any major upside into my overall outlook on the textile. And this is what my personal view is.

Moderator: Thank you. Our next question is from the line of Falguni Dutta from Mansarovar Financials. Please go ahead.

Falguni Dutta: Sir, can you just share the production and sales volume in tons for the quarter?

R. S. Jalan: You see, basically, we never share the numbers in tonnage. We only share the quarter revenue. I told you that the numbers will change because of the tonnage and things like that. The products mix are different. Count range are different, because I said in my opening remarks also 24 to

120. So, that coordination between quarter-to-quarter on the volume term is not something which is going to be meaningful for us. We look at the revenue. We look at the utilization. Like I said in my opening remarks, my utilization is 98% plus. We monitor on those things.

Falguni Dutta: If you can just tell me for the year will do. I mean, just to get an idea. Last year also will do. How much was for the full year?

R. S. Jalan: Last year, roughly, I will give you, around my top, my, what do you call, tonnage was around 33,000 tons.

Falguni Dutta: 33,000 tons for the full year?

R. S. Jalan: For the full year, which was 28,000 tons in '23.

Falguni Dutta: And you are saying this was what capacity utilization, this 33,000 tons?

R. S. Jalan: Broadly, our utilizations are between 98% to 99% capacity.

Falguni Dutta: And sir, can you say that just if you can share that this 33,000 tons, how much will it get to post all your expansion is completed?

R. S. Jalan: Sorry, can you repeat?

Falguni Dutta: Post the completion of your expansion in spindle capacity, this 33,000 tons gets to what number?

R. S. Jalan: This is very difficult because I told you that depending upon what count we make, and broadly we are going to tell you that you see plus we are talking about something around 21 tons per day. Just calculate that. I am just giving you the number. Don't hold be responsible for this number because depending on the fine count, depending upon there are many things.

Falguni Dutta: Yes, sir, that's okay.

R. S. Jalan: This is roughly around 7,500 that we get. That means this will become roughly 40,000 tons. After this 25,000 expansion, yes, 25,000 expansion which is completing next year, my volume will go up to, as I said, 40,000 tons.

Falguni Dutta: And just to come back on this, you said 21 tons. What's the number? 21 tons per frame, you said, is it?

R. S. Jalan: Don't take this number. This is for my calculated purpose.

Falguni Dutta: No, this is just for our understanding. So, how should we calculate it for our understanding? So, you said 21 tons per?

R. S. Jalan: We monitor that number on the daily basis. That's 21 tons per day production. That is what the target for the new 25,000 spindles, which we are adding. So, I have multiplied by 316.

Moderator: Thank you. Our next question is from the line of Sachdev from Albatross Capital. Please go ahead.

Sachdev: Just a quick question. Could you elaborate a bit on the strategy on the yarn side? Sorry, on the fabric side? Could you elaborate a bit on the strategy on the fabric front, the model and the kind of potential you have seen there?

R. S. Jalan: Yes, good question, I would say that. See, Mr. Sachdev, you know for this mill or this company, of course, it was a part of the GHCL. We have been in the yarn for a long period of time. And I think reasonably we have done on that goal.

Now our thought process is that we have to go into the value chain in a gradual manner. The first target which we have in our mind is to go from here to knitting and weaving, which we have already started our journey years back by the outsourcing model. So, that to understand the market, to seed marketing, to understand the customer, to understand the requirements and things like that, we are in that process. Once we complete this 25,000 spindle, in this spindle itself, we are creating an infrastructure, which we will be adding the machine next year of knitting machines.

So, we have a plan to go for the knitting machine or knitting segment and we have a plan to go for the weaving side also. And broadly, our thought process is, approximately around 40% of our volume should gradually move towards this segment.

And the last but not the least, we are ultimately, we have already applied for a land in this zone which is PM MITRA Park, which is getting into Tamil Nadu, to go into the processing and making the processed fabric ready-to-cut. And all this plan we have in next 3 to 5 years to complete. And we have a plan that this top line going from this 1,400 to 1,500 crores, because this year is around 1,200 crores, next year it should be roughly around 1,400 to 1,450 crores, after this 35,000 spindle *(to be read as 25,000 spindles).*

Broadly, I am giving you a number on an annual basis, because next year this number will come in only in the month of June. So, proportionately the number will be less in '25-'26. And after that our growth plan is more towards the knitting and weaving and processing. This, my estimate is next 3 years that should happen. So, after this probably we will be double than the turnover of what we have right now. We will achieve in '24-'25. So, that is what the plan is and going forward.

Sachdev: So, if I am correct, this business would be a high ROCE business than the traditional yarn business?

R. S. Jalan: See, long run, again in this business, I want to be very clear which I have been talking on my every call. In a longer term, my margin on the spinning has been around on the range of around 14% to 15% based on the initiative which we have taken of one is that moving from a commodity to the value-added segment plus our footprint on the green energy along with its value addition. Our target is around 18% to 20% kind of a margin should be the number. Obviously, this number of incremental will come also because of this knitting, weaving and the processing part of it. The overall margin should be around 18% to 20%.

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

Saket Kapoor: Sir, you mentioned Rs. 1,000 crore CAPEX. In that, if you could just give the break up for this financial year and how would we sum up the Rs. 1,000 crore?

R. S. Jalan: See, Saket, like I have just said in my opening statement, 350 crores we have already spent last year itself in our 40,000 spindles. Balance remains 650 crores. Out of that, roughly around 220 or 210 crores is already under implementation that will get completed by June '25. Right? The balance amount will be on the knitting and weaving and the ready-to-cut process fabric project. The balance amount will get invested there.

Out of this total number, one additional, one reduction will be there. That's the green energy, which I have said in my opening statement, that we will be putting another 10 to 15 Megawatts of green energy. So, roughly around 60 crore will get, roughly 60 crore will get subtracted out of that. So, overall put together all these things, the balance amount will be in the knitting, weaving and processing.

Saket Kapoor: And sir, you mentioned our tonnage at 33,000 tons per annum as of now, which will get expanded by 25,000. Sir, I missed that number. So, the resultant quantity will be 58,000, with the completion of 25,000.

R. S. Jalan: No, Saketji. I said 33,000 was in 2024. I said this 25,000 spindles which we are getting added next year. This would add another 7,000 tons. So, the total number will be 40,000 tons.

Saket Kapoor: Oh, yes, I missed that part, spindle quantity and tonnage. I missed it. And then, sir, what will be our debt-equity ratio, as we are embarking on this Rs. 1,000 crore journey, where already CAPEX, where 350 has already been spent. And I think so, our EBITDA for the quarter has been around 28-29 crore. So, 120, 130 should be the EBITDA number annually. So, we are looking for borrowing, sir, then going ahead to fund this CAPEX, or how are we going to fund this CAPEX, sir? And what would be the debt-equity ratio?

R. S. Jalan: The first and foremost, Saketji, this calculating this number of 120 and 130 is a kind of a, not the right number because this is on the stage where we are on a bottom of the pyramid on the margin side because of the overall industry situation. I don't think this situation will continue for a longer period of time. Right?

So, like I said, in the long term, our margin expectation should be not less than 14% to 15% minimum, which I call it as a normal EBITDA, even if I don't consider all the initiatives which we have done or we are likely to take. So, the number will change, number one.

Number two, you know very well that today we are on a net cash basis, no working capital loan, no debt on the balance sheet on the fixed asset side. We have a strong leverage possibility into our balance sheet, and we will maintain the discipline of 1:1. Still, we have a big headroom to invest. So, all this planning is based on that. We will remain in the 1:1 debt to equity ratio. Yes, we will raise the debt and definitely our margin will also improve and ultimately it will create a better kind of a return, a better kind of a debt-equity also.

Saket Kapoor: When you alluded to the fact of unrest at Bangladesh, so that is a temporary phenomenon and that has created in the immediate future some demand issues or some supply issues. That is the reason why the arbitrage, that means from the cotton to the yarn spread has improved. That is what you are alluding to, sir?

R. S. Jalan: No, Saketji. what I was trying to indicate is that in Bangladesh, because of all these disturbance, there are many mills which are deciding to kind of a close down. I am talking about the garments and mills, okay, decided to close down. How the situation turns out? We don't know right now. But this has created an opportunity for the Indian garment manufacture in a longer-term basis. But because of the capacity constraints, roughly, we may miss out some of the opportunities which may go to, what you call, Vietnam or Cambodia and things like that. That is the point I was trying to say, but maybe that may not also I may be wrong. Only the time will tell that.

Saket Kapoor: But we are of the opinion, you being a veteran in this industry, you are of the opinion that these spreads are definitely going to improve from where we are. These are at the bottom of the cycle.

R. S. Jalan: 100%, Saketji. See, no, this is not something which even we need to predict. Because on these margins, no new investments will come in. It has to improve. Because any business, if it doesn't have a return on capital employed of 14%, 15%, how long will you sustain on that business? If you don't have an EBITDA of 14%, 15%, how can we sustain?

Second, as you know, a lot of consolidation is happening in this industry, and obviously, that will also be an opportunity because of this consolidation. The marginal players will get vanished, and this will also help to kind of improve the spread. So, in the longer run, medium to longer term, definitely the margin has to improve.

Saket Kapoor: And last point, sir, I may be wrong. Correct me. If we have, sir, any valuable real estate that we house under GHCL Textiles post this demerger exercise? And how should that asset be valued or how are we going to spread that asset? Any land parcel or if you could just elaborate?

R. S. Jalan: Saketji, all the assets are already accounted for in the balance sheet, and we know that we have a very healthy balance sheet and that balance sheet at this point of time does not have any kind of a, what you call, debt or any kind of even the book value of the business is much, much healthier.

Saket Kapoor: No, sir, I was just alluding to a real estate that currently is housed under GHCL Textiles and that can be monetized or that has a higher market value than the one which is there as, because that would be a book value for us. So, I was just alluding whether we hold any valuable real estate asset which is not for the operational purpose.

R. S. Jalan: See, Saket, we do have, but we don't have any plan at this point of a time, kind of a, we are not given any thought to that, okay, how to monetize them, because we have an opportunity at this point of a time to how to kind of grow our business at this point of a time. We have possibilities of debt raising. So, we have more priorities at this point of a time than looking at this.

Moderator: Our next question is from the line of Chirag Jain. Please go ahead, sir.

Chirag Jain: Sir, just to clarify, the 18% to 20% EBITDA, which you are trying to target for the integrated product by getting into weaving and knitting, so it would be due to we being integrated manufacturer from spinning to end product till dyeing to getting end product. Is that right understanding?

R. S. Jalan: No, Chirag, let me clarify again this. I just said don't link this margin with the current margin, because the current margins are not the realistic margins for this kind of a business. And historically, last 15-20 years, in 5 years, you take any average, you will find that our margins were in the range of around 15%, 14% to 15%. So, I am assuming this 14% to 15% margin in a normalized situation will happen. And as I just now said prior to this answer, that in the long run this margin has to come, because otherwise the business sustainability of the vision will not be able to justify.

So, that is going to come. And the way we have structured this business, our cost competitiveness in terms of our solar and green, what you call wind power portfolio, the way we have built our value-added segment, the way we have built our labor and what you call, all the cost measures, we are very highly competitive on that. So, that all will add to this 14% to 15%.

Balance incremental, which you are rightly talking about, will come because of scale of operation, because of your weaving, because of knitting, and because of your, what you call, processed fabric. So, we are looking at a gap from 14% to 15% to 18% to 20%. And that we will be able to add because of this initiative which we are doing.

Chirag Jain: Next was on the expansion that we are currently doing of the spindle capacity. So, the average cost of expansion is coming around 86,000 per spindle. So, do we have any extra infra for the future purpose? Is that the reason why it's on the higher side or is there some new technology that we have implemented? So, can you give us some color on that?

R. S. Jalan: There are two things. One, this project we are taking a very state-of-art project, which is completely 100% retail project, which is where we don't have a kind of a mix and match of some domestic machines and things like that. State-of-art project will be there.

The second, it's a highly automated plant.

Third is, this is a very coarse count, where like I said, with a 35,000 spindle, we will be producing 21 tons. If you calculate on the basis of our current capacity, you will find these numbers per spindle are much higher. Right? So, these are the reasons. Because of this, capital cost is on the higher side.

However, in addition to, as I said, some, which is not going to be very significant, we are building the infrastructure for 40 knitting machines in the same building and same compound, and there will be no capital cost of the building and this thing for those machines. So, to that extent, you can say the numbers are, will be there.

If you remember last year, we invested 40,000 spindle and our total investment was roughly what? 250 crores? 260 crores. So, 260 crores, 40,000 spindles, right? So, it was 65,000. Right? Now it is coming to 86,000. This is primarily as I said. And this 40,000 spindle which we added, that also gives me 21 tons capacity. And this 25,000 also will give me a capacity of 21 tons.

Chirag Jain: Sir, lastly, because I joined a bit late, if I missed out on that, on the spread. So, I had a question that, what were the spread of previous quarter and this quarter for us?

R. S. Jalan: Since you have joined later. 126 was the last quarter and this quarter is 122.

Chirag Jain: 122 and previously?

R. S. Jalan: 126 last quarter.

Chirag Jain: So, the spreads haven't moved for us.

R. S. Jalan: Yes, and compared to last quarter, no, but if you look at the same quarter last year, it has moved from 96 to 122.

Chirag Jain: Because I was trying to figure out because the other players have reported a Q-on-Q increase also in the spreads. So, that's the reason I was asking that. So, any color on that, why we haven't been able to?

R. S. Jalan: I think I have already answered this question. I think just two questions before, I have answered that question too. I think it's Amit or someone. I have answered that question. So, I have already answered that question.

Moderator: Thank you. Our next question is from the line of Jatin from Swan Investments. Please go ahead.

Jatin: Sir, just wanted to know now, when you have guided in next three years, our revenue will be doubled, so from 1,000 to 2,000 and probably we will be doing 15% to 18% of the margin, so at that point of time, what type of return ratios that we are looking at it, because if you look at current return ratios, we are around 5% or sub 5%? So, how shall we look at the ROE and ROCE over next three years?

R. S. Jalan: See, Jatin, as you rightly said, and one of the areas where we are working on that is that how do we optimize our working capital management. See, basically, Jatin, what happens in this business, historically, and you will find because of that, there will be a difference between the return on capital employed of various industries or various companies. Okay. Historically, what we have been doing is that we were covering the cotton in a season, and we have a long working capital and need for those cotton.

Keeping two things into mind, one is the quality of the cotton and second is the volatility or trend of the last 15-20 years, barring few years, seen that in the off season, the cotton prices are going up. Right? So, that is one. So, you have a large capital, and you add that working capital on that and based on that what happens? Your return on capital employed goes down. Because you get the loan, you get around 7% to 8% and while calculating, you are adding that number and therefore, return on capital employed goes down.

If I have seen the synthetic side of the business, then that concern we don't have. So, if you are in the cotton industry, you will have a different ROCE and if you are on the synthetic side, you will have a difference. And if you are in the value-added segment, like weaving, knitting and all those things, your return on capital employed will be different because in that case, you are going to the second stage of the value addition and the working capital remains the same. You don't have to add the working capital.

Next point, yes, we are also working. How do I optimize the working capital? And that is probably in next few quarters, you will see that sense of more optimizing our capital allocation towards the working capital and that will improve our return on capital employed. My target will be in the first stage, my target should go to double digit means around 10%, 11% kind of a, and historically, we have been getting that.

So, to that extent, I think by these two things, we will be going to that stage and ultimately, it should be around 15%. At least, we should have a, what you call, return on capital employed. Once we complete this journey of knitting, weaving and cut, what you call, process, we should have a return on capital employed around 15%.

Jatin: So, sir, is it fair to assume that by that time, our knitting, fabric comes and when we double our revenue to 2,000 crores with 15%, 18% margin, our return ROCE will be in the range of 10% to 11%? That's it.

R. S. Jalan: No, no, I said that initial on the immediate basis, next few quarters, it will be around 10%. But as you rightly said, after once we complete this stage by stage, this improvement will start happening, and ultimately we will reach to 15%. It's not that from 10% to 15% it will reach only at the end. Gradual improvements will happen.

Moderator: Thank you. Our next question is from the line of Uday Kumar from SMIFS Limited. Please go ahead, sir.

Uday Kumar: Sir, just the 40,000 spindles you are adding, is it started? The commercial processing has started?

Sir, I was asking about the 40,000 spindles. The commercial production has started or is it yet to start?

R. S. Jalan: No, it has already started last year itself. The full benefit will come in this year. That's the reason you are seeing in the first quarter, our number has gone up. Even in the last year also in the March quarter, the reflection of that was there.

Uday Kumar: And sir, the 25,000 spindle will be operational by next June '25, right?

R. S. Jalan: Yes.

Uday Kumar: And just on the revenue side, you said that you will double the revenue in two to three years of timeline. So, roughly 1,000 crores of CAPEX and 1,000 crores of revenue. So, the asset turn comes around 1, right? So, seeing the industry, it's a bit lower like in the slick 1 to 1.2, 1.3 should be the asset turn. So, where are we lagging behind, sir?

R. S. Jalan: You rightly said that. Basically, depending upon the segment of the market you are, your number will change. Okay. If you are purely in the spinning side, your ratio will be 1:1 generally. And if you are in a project congregate, these are all technical things, you are in an average count of 40, your ratio will be different if you are in a coarser count.

Just now I have said, if you look at our 25, 30 spindles, my project cost is 200 crores or 210 crores. My revenue will be 250 crores. So, it all depends on which segment you are in the market and if you add to that weaving, knitting and things like that, your ratio will definitely increase to 1.3.

So, when I said 2,000 crores, my number was not 2,000 crores. I said I will increase the revenue from second year. That means likely number should be something around 2,400 crores kind of a number should be there when I am talking about doubling the revenue from here because 1,200 crores will be my revenue this year.

Uday Kumar: Sir, just one more on the margin side. I assume the spinning margins would be around 14% to 15% and you added 18% to 20% margin that will be coming from the fabric side, right?

R. S. Jalan: Yes, let me repeat this, Uday. Basically, as I said, on a longer-term basis, we have achieved the margin of 14% to 15%. That we are assuming that margin will come back. Second, I said that many things we are doing, green initiative or the green power. Second, I said value added, moving the commodity to the value-added segment. That is the second thing. Third, I said knitting, weaving and the processing. All these put together will take us to around 18% to 20% margins.

Uday Kumar: And you also said that you wanted the fabric share should be 40% of your top line. What is the current share right now, sir?

R. S. Jalan: It is hardly 5% and that is also in the outsource model. We don't have our own infrastructure on that.

Uday Kumar: The 40% will be wholly integrated, right?

R. S. Jalan: The 40% will come once we have all the infrastructure of your knitting, weaving and the processing and all those things.

Uday Kumar: And the expansion of the spinning, knitting, weaving, this all will come after this June '25, right? After the spindles, 25,000 spindles?

R. S. Jalan: Yes, yes. First, we are completing this 25,000 spindle. In the meantime, we are getting finalized and we are already on the outsource model. We will increase our volume or our percentage of this 5% in the outsource model. It is not that we will be struggling on the outsource model only up to 5%. We are trying to increase this percentage on the outsource model and then, subsequently, we will add this infrastructure and we will go to the 40%.

Moderator: Thank you. As there are no further questions from the participants, I now hand the conference over to the management for closing comments.

R. S. Jalan: Thank you very much for all of you for participating and I can only assure you on behalf of the complete management of GHCL Textiles that we are trying our best to improve upon our margin and to grow. Our capital allocation focus will always be on deploying in a meaningful manner so that we can get the best return out of that investment. The journey of 20 years or 25 years in the sewing business, I am reasonably confident that we will be able to meet your expectations. Thank you.

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.