Vardhmān
Delivering Excellence. Since 1965.

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SUB: TRANSCRIPT OF EARNINGS CONFERENCE CALL OF VARDHMAN TEXTILES LIMITED – Q1 FY'25

Sir,

Pursuant to the provisions of Regulation 30 read with Part A of Schedule III of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed herewith transcript of the earnings conference call of the Company held on 1st August, 2024 to discuss Q1 FY'25 results.

Kindly take the same on record.

Thanking you,

Yours faithfully,
FOR VARDHMAN TEXTILES LIMITED

Sanjay Gupta

Digitally signed by Sanjay Gupta
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(SANJAY GUPTA)
COMPANY SECRETARY

"Vardhman Textiles

Q1 FY '25 Earnings Conference Call"

August 01, 2024

MANAGEMENT: **MR. NEERAJ JAIN – JOINT MANAGING DIRECTOR – VARDHMAN TEXTILES LIMITED**
MS. SAGRIKA JAIN – EXECUTIVE DIRECTOR – VARDHMAN TEXTILES LIMITED
MR. SUSHIL JHAMB – DIRECTOR FOR RAW MATERIALS – VARDHMAN TEXTILES LIMITED
MR. RAJEEV THAPAR – CHIEF FINANCIAL OFFICER -- VARDHMAN TEXTILES LIMITED
MR. MUKESH BANSAL – HEAD OF FABRIC MARKETING – VARDHMAN TEXTILES LIMITED
MR. VARUN MALHOTRA -- HEAD OF FINANCE -- VARDHMAN TEXTILES LIMITED

MODERATOR: **MR. ROSHAN NAIR – BATLIVALA & KARANI SECURITIES INDIA PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to Vardhman Textiles Limited Q1 FY '25 Conference Call hosted by Batlivala & Karani Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone.

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

I now hand the conference over to Mr. Roshan Nair from Batlivala & Karani Securities. Thank you, and over to you, sir.

Roshan Nair: Thank you. Good evening, everyone, and welcome to Q1 FY '25 Earnings Conference Call of Vardhman Textiles Limited. On behalf of B&K Securities, I welcome all the participants and the management of Vardhman Textiles Limited to the call. We have with us Mr. Neeraj Jain, Joint Managing Director; Ms. Sagrika Jain, Executive Director; Mr. Sushil Jhamb, Director or Materials; Mr. Rajeev Thapar, CFO; Mr. Mukesh Bansal, Head, Fabric Marketing; and Mr. Varun Malhotra, Head of Finance.

Without further ado, I would like to hand over the floor to Mr. Neeraj Jain for his opening remarks, post which we can have a Q&A session. Thank you, and over to you.

Neeraj Jain: Thank you, Roshan. Good afternoon, everyone, ladies and gentlemen. So welcome to all of you for this early call of Vardhman Textiles. The numbers you would have seen yesterday, there has been some improvement in the business of the company, especially for the companies where being raw material was covered during the season at the right prices. The deal of future when we started the quarter was at a reasonable level of -- and the yarn prices were also formed accordingly.

But I think over the period of last two months or so, slowly the view of future has been coming down and the prices of yarn also kept coming down. So as a result of that, though we think we have always sold sometimes for the future business for 2, 3 months, I think the realization in this period has been relatively better, which is a little down as of now on the current basis.

On the raw material side, since that was that the full season was where the New York Future was at about $0.80, $0.82 and the available of imported cotton across the world was in the range of $0.90, $0.92 or so. And whereas the reason in India, the cotton was available at INR54,000 INR55,000, which in terms of US cents was relatively okay and in the range of about $0.82, $0.83 or $0.084. The company covered most of the raw material at those prices.

And as a result of that, I think and immediately after the cotton season was over, the pricing went up to almost INR58,000, INR59,000 a candy from INR55,000. So that was the traditional advantage which the company was getting or still is getting.

In the meantime, the New York Future target coming down because of a better crop estimation in USA and the better value condition in Texas and as the entire world looked at the New York Futures, the yarn prices are also starting coming down, which is definitely giving a content as of now to the Indian spinners because the pricing in India definitely higher compared to the market as of now.

The second important issue for the industry is the minimum support price. The Government of India announced the support price -- minimum support price of cotton also for the next year, where they enhanced it by almost 7%. And the price for the Kapas was fixed at INR7,521 per -- and if we look at per quintal.

And if you look at converted in terms of candy, it will be close to about INR60,000 or so on the minimum support price. And I think that's definitely giving us a concern at INR59,000 a candy -- I think we will be very close to about ---(inaudible) in the range of \$0.70-\$0.71 how the Indian industry will play in the next three to six months' time. So that's definitely a concern as of now.

In terms of the overall business, we can say, I think the company has done decent, both in terms of the cost efficiency, in terms of the product, in terms of the internal cost saving initiatives. We've been looking at all those ideas and working very hard on that. Two, we've been discussing last three years the issue of China Plus One, and our belief is and have been repeating it in every call, our belief is there seems to be a reality today where more and more brands are looking at India as one of the important vendor-based country for their product. And we are looking more and more business coming to India from those vendors.

The only choice will be one, whether we can deliver them in two to three, four weeks' time is the one to the number of fibers are going to be much more than better as well as cotton. So how do we prepare ourselves for the flexibility, both in terms of the product as well as the number of days, the delivery time?

And in case we are in a position to do that, I think that business is improving, increasing dramatically in India. And definitely, Vardhman, being one of the large player and having all kinds of technologies, all kind of products, we have that option available to us where the customer wants to deal with the better companies -- better organized companies and we definitely fall into that. The only choice will be whether we can continue to deliver them all these things. And for that, what more is required to be done internally so that we can continue to grab that business, which is a profitable business and it is sufficient in terms of volume as well. So those are the opportunities as well as some issues and concerns on the economies side.

In terms of customer, product efficiency costs, I think company is being really good. But definitely, the raw material prices are higher. That's going to give some concern to us for the overall India textile industry for which we are requesting government also to look at, and we might have to look at how the next season goes in.

In the meantime, it looks like since the international price of cotton has lowered, it may -- and though the India direct import is not there, but we can import under advanced --- (inaudible) where the duty incidents will be relatively lesser.

It looks like India is ready to impose lots of cotton this year and already that import started contracting and it may be possible that India may import a larger volume to ensure the availability of raw material at right prices which is -- and to that extent, the pressure on Indian cotton will be lower in terms of the buying or the cost, but we do not know ultimately what happened to whatever stocks are left there, either with the farmers or with the CCI or with the mill owner so how will it look like at the end of next cotton season. That's something we have to really watch and look at how do the entire market scenario behave in this manner.

So that's on the spinning side. And also in terms of the -- or the monetization and the expansion projects, which were announced last time, I think the work has started happening on most of the projects. We are on-track and we are expecting it to be completed by this deal, which are decided internally. Most of these projects should be completed in this financial year as well as next financial year. Of course, majority in this financial year itself.

We are all on track, all orders, majority of the orders have been placed lot of constructions has started and things are working well. And sure once these projects are completed, it will reduce. It will give us lots of advantages, both in terms of cost as well as improvement in flexibility and some production increase as well, which will further develop the optimization to our overall operations of the company.

So that's on the selling side, relative to the many things we can discuss during the QA. And before that, I request Sagrika to give some idea -- to start with, Mukesh if you could give some idea on the fabric marketing and then if there are QAs then Sagrika could take that. So over to you, Mukesh.

Mukesh Bansal Yes. Thank you, Neeraj-jee and good evening, everyone. As far as fabric is concerned, generally the period of quarter one is a all-holiday season period, wherein the demand for cotton textile is anyway lower than yearly averages I would say. So that is why the Q1 is generally lower for the Indian textile companies.

But this year, it was an exception due to a couple of reasons. One, of course, is the China Plus One which Neeraj-jee has also elaborated. Second is due to the Red Sea condition, the transit times are longer, so all the buyers wanted to pull forward their already placed orders or they also preponed some of the orders so that they can make up for some of the lead time that in transit will be higher. So there was a flow of higher orders during this period as compared to last year, same time.

Third is that in the past, we have invested into some capacity building and capability building in terms of handling more number of fibers and also doing some cotton products, which are specific to the fall holiday season.

And fourth reason was that, as we mentioned in the last call also, the inventories with the international retailers, especially in the US, they are continuously coming down to a reasonable level, which were higher three quarters, four quarters ago. And the retail sale is also better. So there is more demand coming back to us, which has led to a good quarter last quarter, and same is continuing in this quarter as well.

As far as the other markets are concerned, Europe, not as good as the U.S., but still some recovery has started happening. Some brands which could not bear the pressure of high inflation and lower sales, their business share has gone to some brands who could be better. So somebody's loss is somebody's win. So likely, we are well positioned with the and our businesses, more or less stable. I will not say it will be robust but it is stable and so in the other markets.

The third biggest market for us is the Indian market. Indian market in Q1, it was not very robust but not very low also. The retail sale was not as good because of very severe decrease. And these sales channels were also disrupted because of the election and other kind of activity. But we are hopeful that Indian market also will have a good demand in Q3 and Q4 because of these activities and also the various sales, which is the main reason for the consumers to buy. So demand is coming back in Q2 from the Indian market as well. That's it from my side. Rajeev, you can take it from there.

Rajeev Thapar So we can start with the QA portion, and I think all the business queries from resolved or can be answered there only.

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

Aryan Oswal: Yes. Okay. Sir, my question was on the -- like say the last call, you mentioned that about expansion and utilization rate of 72% to 75%. Have you seen any changes in this metric in Q2?

Neeraj Jain: So the overall country's utilization is still in the same range of about 75% only and I think slowly that utilization has come down only. So there is no change in the utilization of spinning industry as such till now?

Aryan Oswal: Okay, sir. And sir, last quarter, you guided for INR2,000 crores of capex. But since then you increased to INR2.5 crores. So I just wanted to understand what is the additional INR500 crores going to be used for?

Neeraj Jain: So out of this INR500 crore, about INR100 crores is the expansion, which we're doing in the open end. I think we are increasing that capacity, and another INR400 crores for the biomass boilers, along with the power systems where we want to look at the green part. So the existing coal base or husk base boiler for a be gained along with some addition for power condition.

Aryan Oswal: Okay, sir. And sir, last question from my side. How has the progress been in increasing our green power consumption to 25% to 30%?

Neeraj Jain: So as I mentioned, I think we are within the target was taken because we have allocated almost to INR40 crores for this to be done in the next two years. We are progressing well and I'm almost confident that within next 1.5 years, we would have a provision to achieve the same.

Aryan Oswal: Okay, sir. Thank you, sir. That's all from my side.

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

Prerna Jhunjhunwala: Congratulations on the marked improvement scenario and good performance. Sir, I wanted to understand now that Indian cotton is expanding to international cotton as you mentioned in your opening remarks, how is the industry going to have a better margin going forward? Or how is the margin -- how are you thinking about margins right now in the spinning business?

Neeraj Jain: Yes. So definitely, there is a concern today because if you go by the today's cotton prices and the margins, which is based upon the international cotton prices, that's definitely a concern. So going forward, a couple of things can happen, a couple of scenarios may develop. The conditions like this. So to that extent, that will be the Indian industry will pass through relatively more disadvantage.

Two, the Indian industry will also start importing cotton in big ways. And maybe because in the advantaged lines, the overall impact of bits only about the duty impact is about 3.5%. So maybe to that extent, we will import more and more cotton compared to using the domestic cotton.

Third, the India, the textile appreciation has been talking to the government to look at some policy where to decide the -- even if they prepare large quantities of cotton, will be their sale policy. So the industry doesn't cover but the government is yet to respond on to that because it has been – and the fourth in the near future goes by, it goes up by $0.07, $0.08 in the next couple of months, then probably that disadvantage will be relatively much less or the Indian cotton may also be aligned to the word market.

So if you go by the overall cost of the farmers internationally, I think this is a very exceptionally low cost. They're not making any money so that could be a possibility. We are hoping that New York Future exports may go back to $0.75, $0.77. And to that extent then, that disadvantage today may be reduced or may not be there at all. But these are all various scenarios putting our let's see what happens.

Prerna Jhunjhunwala: So then achieving normal margins of 18% to 22% as your ranges looks distant even today?

Neeraj Jain: It is, Again, Prerna, there are two factors there: one is a normal margin; second, the utilization of the industry. Since the time industry is utilizing 75% capacity only the moment margin starts improving, the rest of the will also start coming in. So unless we look at the utilization of industry, which is north of 90%, the overall margins may not improve on a consistent basis. Whenever we look at the margins are improving, a lot of those players who are stuck today, they'll also start coming back to the system. I think we'll have to wait for some more time.

Prerna Jhunjhunwala: Understood. And what are you saying for fabric? Have the margins for fabric also started improving largely because the -- yarn is continuously under pressure? Maybe margins are not normalized. So is fabric able to get a little higher margin because of transfer pricing? I mean, as an industry on a basis? Or there also, we take issues on margin front?

Sagrika Jain: There has been a slight improvement in margins but that would not be as Mr. Mukesh Bansal had also said. That is because of our diversified customer base and also diversified cotton market. So you can also say for margins to improve on a consistent basis, the industry dynamics should improve.

Prerna Jhunjhunwala: Okay. So which means capacity expansion in fabric business may also not happen in near term? You're almost running full utilization in fabric business?

Sagrika Jain: Yes, we are at a maximum capacity utilization but we are progressing well towards our expansion plans, and we are underway as we had discussed last time as well.

Prerna Jhunjhunwala: Okay. I'm just saying in fabric, you haven't announced anything on normal -- the existing fabric business capex?

Sagrika Jain: So in the normal fabric business, we are planning to expand our solid dye by around 8%, 9% and yarn by around 15% to 20%. This was also considered the solid dye was part of demand part of product mix changes. And we saw certain segments where we wanted to enter. That would be our capacity expansion of normal fabric business.

Neeraj Jain: So this was the part of the announcement, which was made last quarter where the INR2,000 crores included the debottlenecking and some marginal improvement also in terms of production.

Prerna Jhunjhunwala: Okay. So this will increase our capacity from 170 millimeters to 180 millimeters to how much now then?

Neeraj Jain: About 200 millimeters.

Prerna Jhunjhunwala: Okay. Understood, sir. Understood. Thank you, sir. I will come back to the question queue.

Neeraj Jain: Thank you.

Moderator: Thank you. Our next question is from the line of Awanish Chandra from SMIFS Limited. Please go ahead.

Awanish Chandra: Sir, congratulations management team on reaching 15% margin after a long, long time. And sir, my question from this only, in your earlier remarks, you talked about that China Plus One has become reality. Though you have soon concern over margin continuing, but it's still 15% margin look like a good margin to think about adding spend there.

You have already announced INR2,500 crores capex but very few capacity in reality we are adding on the spinning side. So any thought, any change in the difference in thought towards the spinning capacity beyond this 56,000 that's in there?

Neeraj Jain: No. As of now, I think most of the capex which is happening other than this open-end project is on the monetization where we feel that all the debottlenecking as well as the monetization of our plant and machinery will help us to reduce costs as well as enhance our flexibility to give this differentiated product. So as of now, there's no plan to expand the capacity because this itself is a huge expenditure for us going by our conservatism. And I think we'd like to do this and maybe we can wait for a year or so before we start taking up any bigger project after that.

Awanish Chandra: Okay. So for the number point of view, with this capacity expansion, our fabric will become 200 and yarn capacity will -- spindle capacity will enhance by 56,000 and this will be completed by FY'26 or mid of '26?

Neeraj Jain: On the stock exchange, we have mentioned two years, which is the current financial year and the next financial year. But I hope most of these things will be applicable or implemented maximum by September next year, which will be about 1.5 years, one this full year, six months for the next financial year.

Awanish Chandra: Is there any issues we have faced due to this recent Bangladesh issue? Any demand slowdown in that region or do we have very less exposure there?

Neeraj Jain: Bangladesh is the biggest customer for the yarn export as of now. So out of India, almost 25%, 30% goes to Bangladesh only. And any disruption over there will have the issues here also. But since it's a small kind of a thing, so I mean it's not really very big. And as of now, there is no impact on the demand. But unless it is resolved or it continues for a long period, then there could be a concern. But as of now, there doesn't seem to be an issue.

Awanish Chandra: Okay. And sir, one more thing on this PLI scheme or FDA, any developments you have heard? I mean, we keep reading in the media all these positive news. But in reality, anything you think that PLI, something will come and it will help cotton textile industry?

Neeraj Jain: Government is announcing it. I mean, they are talking to it on various forums. So last couple of meetings we have attended with them, they've been only saying that the next PLI is likely to come very soon, which will include the PLI for the garmenting also. So we'll have to wait and much only when they announce it.

Awanish Chandra: And sir, one very quick thing, that 15% margin, it is very far from 18% to 20%, but considering we are doing so many value addition and projects. And also can you think that at least this margin will be sustained, if not this goes towards 18% any time soon, at least we can maintain this level?

Neeraj Jain: All efforts are, but I think, again, we'll have to look at the raw material prices also because if the raw material prices in India are higher compared to the world markets, I think then it's going to be difficult at least on the spinning side. At the same time, fabric definitely can sustain these kind of margins. So it's going to be very challenging and frankly going by cotton prices in India, it may be difficult to sustain that for sure.

But let's look at in case government also supports by taking some steps, then there is a possibility to sustain it. And by the time we complete all our modernization and expansion, definitely with the cost reduction and increase in production, we'll definitely look at how to improve upon this. But the question I think I'm afraid of answering that we -- if we can maintain it at these levels in the given current situation.

Awanish Chandra: Okay, sir. Thank you very much for answering my questions. All the best, sir.

Neeraj Jain: Yes.

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

Resham Jain: Yes. Hi. Good evening, sir. So two, three questions. Sir, the first one is I think you have mentioned about China Plus One strategy showing some positive traction in your business. I presume this is for fabric business?

Neeraj Jain: Both spinning and fabric they're finding -- overall textiles we are finding people are interested to look at China Plus One.

Resham Jain: Okay. And what kind of inquiries -- if you can just share more thoughts around it, what kind of inquiries, what kind of size because I presume this will be all large-sized customers? So what are their expectations? And you have explained some of those aspects, but how can Vardhman as a company can leverage out of it?

Neeraj Jain: So their expectations are very clear. The prices have to be competitive compared to the Chinese and the delivery has to be within three to four weeks for the spinning and maybe about six weeks from the fabric. So both these things are -- the quality is given, the prices are given and it's only the fabric which can make a difference. And there too you have to manage their entire --- (inaudible), the immediate orders as well as the smaller orders. Any company, any country which can do that, I think there's enough business available.

Resham Jain: Understood. And are these more profitable business than, let's say, your average kind of margins currently? Are the margins better?

Neeraj Jain: Once we are running the basic products like 20s, 30s, I think compared to that, all these businesses which are relatively lower in volume but more in flexibility and fashion, definitely the margin there would be better, provided we can produce it at the right cost. In case because of the smaller or very discontinued kind of a product, in case the cost increase, then probably you don't take advantage of that. But the entire game will be whether we can produce these products keeping the costs in control, then definitely it's better margin products.

Resham Jain: Understood. Sir, my second question is with respect to the profitability between spinning and fabric. If you can help with the rough cut, what would be the profitability coming from the fabric business, including processing? Out of your total, let's say, profit during Q1, 60-70, whatever rough cut, if you can help, that would be helpful.

Neeraj Jain: Very difficult because the reason we have never given the separate numbers for these two businesses, so I can only say generally -- I mean, the spinning margin, you can calculate it usually with a 70%, 75% conversion cost what would be the margin and then you have to do that math yourself. From company's perspective, we generally do not share these numbers.

Resham Jain: Okay. Because seven, eight years like you used to give separate margins, you have discontinued that. But given that the current spinning situation is not good, is it fair to assume that 75% -- 70%, 75% profitability must be coming from fabric?

Neeraj Jain: Not really.

Resham Jain: Okay.

Neeraj Jain: Spinning will be better than that, definitely better than that.

Resham Jain: Okay, understood. And sir, my last question is with respect to the overall business model. Last three, four years, we have seen spinning facing more challenges than the fabric business overall. And you have more of an integrated business. But a lot of companies have built business model whereby they can buy yarn from outside as well, some kind of yarn so that they can scale up the fabric business much faster. Are you thinking on those lines or that's something which is farfetched?

Neeraj Jain: So one, whether we are not expanding the business of fabric because of any constraint or financial, that's not an issue or a concern. So whatever are the opportunities we have in the fabric business, we are expanding it without looking at where the yarn comes from. So it's not that there is any constraint on the resources that you don't expand the spinning capacity and you expand the fabric business. Both the businesses are independent running and looking at their own opportunities, where both the business want to expand this type.

So on the fabric side, we're very clear that whatever are the opportunities, we are actually looking at that and we are expanding into that business. So there is no financial constraint or a restrain that the fabric is not being expanded because that money is being utilized the spinning. Both businesses are looking at their own options, own opportunities and both businesses are going.

Two, in any state, whether it's an outsourcing of the yarn or within the company, the fabric business gets the yarn at the market prices only. Margins are less or higher, that's a separate issue. Third, in any case, there are some advantages of internal spinning also in terms of quality, in terms of flexibility, in terms of the overall consolidation and vertical integrations. A lot of customers are common where they want to buy both yarn as well as fabric. So those are the different advantages and disadvantages, but I can only assure you that the fabric growth is not less because there are not resources available whatever has the options, opportunities available we are doing that.

Resham Jain: Okay great. Thank you so much and all the best.

Moderator: Thank you. Our next question is from the line of Nikhil Agrawal from Kotak AMC. Please go ahead.

Nikhil Agrawal: Good evening sir and thanks for the opportunity. Sir you had mentioned that you have purchased cotton at INR54,000, INR55,000 per candy. So for how -- like have you covered -- are you covered for the entire year or is it just for a few months?

Neeraj Jain: No, it's only for the season because most of the -- the Indian cotton season will start somewhere in the month of October or so. So generally the entire bottom buying happens only up to the season. The next season will have to buy it again.

Nikhil Agrawal: Okay. So this year, you -- I believe last year also you had procured for the whole year in October, right?

Neeraj Jain: No, not October. October we start buying and I think buying continues until February or March. So by the end of March we generally have the stock for about 7 months, 8 months and that's our general – generally this is what we do unless we find different ways in terms or we have a --- (inaudible) of the pricing going forward. So most of the time our endeavour is to buy the cotton in the season so that we can secure the right quality of cotton as well.

Nikhil Agarwal: Understood. So the reason why the margins went up this quarter we can attribute it to the lower price we bought cotton like that can be the sole reason for that, right?

Neeraj Jain: No, that's not the sole reason in between because the near future was also firm so the price of yarn were also better. So our cotton even for second quarter of the cost is going to be the same, but the margins may or may not be the same depending about the yarn prices which are today depressed because of today's near future.

Nikhil Agrawal: Understood. Can you help me with the yarn prices that were there in Q4 FY 2024, Q1 FY 2025 and currently?

Neeraj Jain: So, the prices in the last year was in the rage of aboutUSD3 I'm talking of ---(inaudible) China base USD10 and USD15 and in between it went as high as USD3 USD25 to USD30 also and today it will again be back to USD3 and USD10.

Nikhil Agrawal: All right understood. And lastly sir about the U.K. FTA. So is the industry still hoping for it or it's a thing of the past?

Neeraj Jain: Sorry come again.

Nikhil Agrawal: The U.K, FTA.

Neeraj Jain: Yes why not. So the government is working, they have been accounting it and any FTA which happens definitely it is going to be of advantage to India. So we are hopeful and anything which happens in favour of the industry. We can export the garment and I am sure it will be a overall advantage for the entire textile industry.

Nikhil Agrawal: All right. That’s it from me. Thank you so much sir.

Moderator: Thank you. Our next question is from the line of from Aman from Augmenta Research Private Limited.

Aman: Hi sir, thanks for the opportunity. Sir first of all if you can help me like for example as compared to FY2023 we have increased our inventory significantly by approximately 75 percentage. So out of this inventory what percentage of that would be raw material? Why I'm asking this question is because given that we have increased our inventory substantially to INR4,000 crores to INR4,100 crores as of FY24. And given that the international projected prices are around 10% to 15% lower from the current level. So as a company will we be at a disadvantage as compared to a company which has not secured cotton inventory? Just wanted to know on that thing?

Neeraj Jain: I'm sorry, I couldn't understand your question.

Aman: Sir as compared to FY2023 we have increased our inventory on books by approximately 75 percentage. If you look at the numbers that you have reported the inventory as of FY2024 is around…

Neeraj Jain: Compared to what?

Aman: As compared to FY23 last year. So out of that first of all I wanted to understand what percentage of that would be the raw material portion? Because given that you procure your inventory, the cotton start from October so I believe that you would have 7 months to 8 months of cotton inventory. And now given that the international cotton prices are 10% to 15% lower, so as a company will we be at a disadvantage or what. Just wanted to understand on that?

Neeraj Jain: So one whatever the inventory increase that's primarily on account of cotton only. That's for sure compared to the last year quarter 2. India the disadvantage is still not there because the Indian prices are still higher than that. So the international prices have come down which has given disadvantage in terms of the lower yarn prices. But when it comes to India, our pricing because of the MSP or bigger inventory held by Cotton Corporation of India. Indian prices of cotton are still much higher than the prices at which we have bought the cotton.

Aman: Okay. So now sir for example as we compare to let's say if there's another spinning company who was not procured cotton and if they are importing cotton. So as compared to them will be - as compared to a peer or someone, will we be at a disadvantage because they will be getting a cheaper cotton as compared to us?

Neeraj Jain: No. So whenever you import cotton because the cotton prices have come down only in about last one month only. And at the moment you want to contract any cotton I will be available to us, the shipment will happen after one month minimum one to three month and then another two months for the delivery of those cotton also. So you can't use the imported cotton if the New York Future goes down today you can't start using it from tomorrow itself.

So there is a minimum time lag of three to four months' time where we have to plan and import the cotton and it's only after that you can use that cotton. So most of the Indian mills in spite of a new --- (inaudible) they are relying only and only on the Indian cotton because the import will take its own time.

Aman: And also sir given that we have increased our inventory substantially, I'm talking as of March '24 as compared to March '23, so what was the strategy behind the same because the operations were at the same level we didn't expand the capacity and we have increased our inventory by approximately INR1,600 crores to INR1,700 crores. So what is the reason for the same like how are we looking at the scenario and what is the strategy going forward?

Neeraj Jain: So there are two things happened together. One this year was a normal period where we wanted to cover our full season and we covered the cotton for the full season by 31st March. So because we were expecting the prices to go up because the MSP prices are still higher --- (inaudible) and the other traders are buying in a big way and the export was also happening in the season.

So our expectation thus caused that the cotton prices will start going up in India which actually happened. So to that extent we got the advantage and our strategy both for the quality buying as well as the cost were definitely well increase in this year. Why the quantity is increased or the volume is increased. Last year the prices of cotton was very high so we did not stop it in the normal way.

So it's not only that this year we have done something exceptional. Last few years has been exceptional that the prices were so high given the reason that we decided not to store the inventory for the full year. So this year whatever has happened that was a normal behavior if you look at last 20 years balance sheet of the company, most or 80% of the time this is the behaviour which we have shown in this behaviour. Last year was an exception because of high prices we did not cover the cotton on a full basis.

Aman: Okay. So given that the inventory also will last until October only you are trying to say that over the next 6 months, 7 months and from October we'll start again acquiring them next year?

Neeraj Jain: Yes definitely sir because when season starts we'll have to start buying it again.

Aman: Thank you so much.

Moderator: Thank you. Our next question is from the line of Riddhesh Gandhi from Discovery Capital. Please go ahead.

Riddhesh Gandhi: Sir, I just wanted to understand from you how do you expect this discrepancy between the Indian and international prices to ultimately actually play out, given sort of MSPs are high, given global prices are low? I mean how does this get resolved?

Neeraj Jain: No. Again, we have to look at the MSP is one where the government wants to support the farmer, but that doesn't mean they'll give the same prices to the industry. There could be a possibility or which the industry wants even if you want to support the farmer which is a good thing. So the disadvantage should not be to the industries and eventually the loss if there is any has to be taken by the government. That's one proposition.

The second,I think going by the cost of farmers internationally also the price of USD69, USD70, USD71 is unthinkable. And eventually it can't be remained at these levels because we understand because the cost outside India also USD75, USD76, USD77 is the lowest cost bare minimum cost for the farmer there. So, in case the prices do not go up, next year the crop will come down in a big way and then the prices will start shooting up big, big way. So, I think eventually, it's all demand and supply equilibrium where the international prices, if they are close to Indian price then there is no problem on the MSP in India also.

And $0.69, $0.70 definitely seems to be an exception today, where in spite of because the crop size certainly is very good. Demand is as of now relatively lower. So, prices have gone down. But eventually, these prices remain. I'm not very sure how much India will come down in the world next time and next year. And to that extent, the prices will again start rising.

Riddhesh Gandhi: Sir, given we have sort of revised our capex slightly higher is that an indication of how we are seeing the overall industry pan out over the next couple of years or so?

Neeraj Jain: So, definitely, we are looking at all the options and opportunities. To us, going by the overall business sentiment and scenario the margins could be lower. But definitely, opportunity looks to be very good for India as well as Vardhman as of now. So, we are enhancing our capex.

And I'm sure if this continues this trend continues then we continue to get better service, better products. We will not hesitate to expand further in the business. There's one bold step we have taken where in spite of the business condition, we are so confident about the overall business scenario for Vardhman or for all the opportunities which I mentioned earlier. So, we are expanding our business. And I'm sure if those opportunities are there in future also, we'll keep looking at that.

Riddhesh Gandhi: And lastly, are there any potential inorganic opportunities given smaller players?

Neeraj Jain: We keep looking at it. But I think as Vardhman, our size has become so big that for any small unit will not make a sense, small site will not make any sense to us. So, theoretically, yes, we are open to the idea. But practically, it looks very difficult that we'll be in a position to find some alternate to this.

Moderator: Thank you. Our next question is from the line of Monish Ghodke from HDFC Mutual Funds. Please go ahead.

Monish Ghodke: Hello. Thank you sir for the opportunity. Sir, do we plan to import cotton under advanced authorization given prices are so low? Even if we receive delivery after, say, three, four months, I think we will still be getting cheaper cotton, right?

Neeraj Jain: Yes. So most of the good spinning mills in India are looking at that option, so Vardhman definitely is one of them.

Monish Ghodke: Okay. And sir, last time, you had announced INR2,000 crore capex in that, around INR400 crores, you had said was for green power. And now I think for boiler, we are setting -- we are spending another INR400 crores. So would this INR800 crores be sufficient to increase our green mix to 25%?

Neeraj Jain: Yes, because again in this, whenever we are creating an SPV for the green power. That SPV will be taking their own loans as well as we will be participating a part of nearly 26% also in the equity. So from our capex this 400 plus should be sufficient. But for 25%, it may not be sufficient because that SPV or whosever is the partner for that they will also be investing into this.

Monish Ghodke: Okay. And sir, one question on strategy side. So our debt is quite low and our debt-to-equity ratio is quite comfortable. And many state governments offer interest of pension scheme if you are setting up spending capacities. So are we exploring that opportunity? I mean after subvention the interest cost would be pretty low.

Neeraj Jain: Our first concern is always the business model has to be there if we want to expand the company or the business. Is there opportunity there? Anything over and above in terms of subsidy, it should be nice to have but it should not be a compulsion that because of subsidy we are expanding the business. So whenever we find or we feels there's a business case for expanding the business, we will definitely do that and look at whatever are the incentives available, we take advantage of them. But as of now, we have never expanded the capacities only because of the incentives.

Monish Ghodke: Okay. Thank you, sir.

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

Resham Jain: Yes. Hi. Just one bookkeeping question. What is the gross debt and the cash at the consolidated level?

Rajeev Thapar: As of June, it is around INR1,150 crores, so out of this around INR900 crores of long-term debt and remaining is the working capital debt.

Resham Jain: And cash, sir?

Rajeev Thapar: Cash book is also, as of June 15 it is close to INR1,800 crores.

Resham Jain: Including long-term investments and everything else, everything altogether?

Rajeev Thapar: Everything including, yes.

Resham Jain: Okay. Understood, sir. And sir, what is the cost of debt for us and what is the yield on cash for us average?

Neeraj Jain: That's why if you see that the rates are different for short-term and long-term because clearly the EPC subvention was able to us, which we are using in the month of June. So, 2% subvention was there, which has gone out for us. And long-term debt, of course the rate is around, let's say, 8% around 8% or so on --

Resham Jain: I'm just asking what is the average cost of debt and what is the average yield on investment?

Neeraj Jain: See, what we see the cost of our investment from a short-term basis on or liquid fund, then they've taken that disadvantage which was there earlier. So, it could be opening around 8% in this quarter and last quarter also.

Resham Jain: Okay. I understood sir. Thank you so much.

Moderator: Thank you. Our next question is from the line of Apurva, an individual investor.

Apurva: Yes. This is Apurva from BugleRock Capital. Just wanted -- last time we spoke about technical exit. I just wanted some more color on -- where are we on that? I think, 15 lakh meters capacity that we have some more --?

Sagrika Jain: Yes. Hi. So we are -- the work is progressing well. We are currently in the process of ordering machinery. We've ordered some machinery and we expect to close this process by another four to five weeks. We are also waiting for rain to subside and then we will officially start civil construction. I'm happy to share that we've gotten all our legal compliances out of the way. And we are confident that by next year, September this project should be up and running.

Apurva Sharma: Okay. And maybe you had answered it last time, but just on customers and any tie-ups are we looking at? Or is it too early to -- or how?

Sagrika Jain: Yes. Right now, we're open to opportunities and if something comes up, we will be sure to let you know.

Apurva Sharma: And this also is, as you have mentioned, this was a varied sector, right? So any particular sector that you would want to concentrate given the opportunity for China Plus One, if at all?

Sagrika Jain: So the opportunity is there for multiple segments. So the most obvious for us is obviously active sports verticals. There are some brands which we are already doing business with. Apart from that, there is also big fans and industrial. They would be more complex, so perhaps we would be taking them up once we are more confident and once we've established ourselves in the relatively basic products.

Apurva Sharma: Okay. Yes. Thank you.

Sagrika Jain: Thank you.

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

Falguni Dutta: I just have a basic question on yarn, domestic yarn prices. Do they always match import parity? I just wanted to know how are yarn prices? Directionally, obviously, they'll follow U.S., but otherwise. I mean, are they?

Neeraj Jain: India is a net exporter of yarn. We are not importer of yarn, so the domestic prices and the export prices generally could be matching plus/minus INR1 or INR2 most of the time.

Falguni Dutta: Domestic and export prices would be matching, but now if suppose the international prices come off, then obviously, we'll have to...

Neeraj Jain: Then the matching prices will also come down.

Falguni Dutta: Okay. Fine, sir. To the same extent?

Neeraj Jain: Yes

Falguni Dutta: Thank you, sir. That's all for me.

Moderator: Thank you. Our next question is from the line of Manas, an Individual Investor. Please go ahead.

Manas: Good evening, sir. Thanks for the opportunity. Sir, would you be comfortable with giving guidance on the sales side? Would you be able to achieve 10,000 mark for this financial year?

Neeraj Jain: Yes, going by the volume and the, I mean, we feel there could be a possibility to go up to INR10,000 crores.

Manas: So it is like a conservative mark or like the higher side?

Neeraj Jain: No, because there is no capacity expansion happening in this particular year, so it has to be only through the value addition or better utilization only. So our first quarter is close to about INR2,300 crores. So if I becomes INR9,200, so to that extent, it's an optimistic number only.

Manas: Okay. And you just mentioned that 15% margin would be like challenging to sustain. So even if we sustain or even if we improve, so that would be predominantly due to volume growth or price change?

Neeraj Jain: So the -- whatever is happening today, any increase happens, definitely, there will be an improvement in the margin because most of the are already covered by the company. So more and more volume in case, we can do a spinning, we're running already running at the full capacity fabric, full capacity. So it's only addition of margins by better products or within that if we do some debottlenecking and we can increase the production that's going to give us the advantage.

Manas: Okay. Understood. Thank you, sir. Thank you.

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

Neeraj Jain: Yes. Thank you, Roshan. So really, thanks very all the investors to be with the part to be a part of the company and attending these calls. I'm sure as I mentioned earlier also in terms of the various opportunities both in terms of customer or the cost optimization, the company is looking at it very, very and is open to all the new ideas. And I think our management is -- all of us are working very hard to achieve to that as well.

The prices or the global phenomenon, we have to give that, but I'm sure we are on the right track in terms of cost or in terms of the efficiencies, those opportunities will also be available to us from time to time. And in the meantime, the advantage to the company today is even though the cotton higher or the spinning margins are lower, but to that extent, I think our public business has been too good. So the overall company that is still the margins are okay.

I'm sure as the time passes as the business becomes more and more normal, things will be better only from these levels in the times to come. Two, also with all these modernization debottlenecking and expansion, which we are doing, it will definitely reduce our cost in big way, which will be available to us partially in the next financial year. I'm sure 6-month advantage would come in the next year and the full advantage in the next year after that. It will definitely give us a huge advantage compared to the rest of the players in the country.

So I'm sure -- and so whatever our thought process, we've been sharing it very well transparent, even the times are good, bad, or whatever we feel we have shared it. Let's wait and watch how the things go and what kind of wrong data changes happen, what kind of young changes or the fabric, both in terms of the prices and demand changes. But I'm sure whatever happens, we're looking at it, watching it very carefully, very vigilantly and wherever, whenever there is any opportunity and catching on to that. So thank you very much, once again, to all of you. Good day.

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