Vardhmān
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VARDHMAN TEXTILES LIMITED

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SUB: TRANSCRIPT OF EARNINGS CONFERENCE CALL OF VARDHMAN TEXTILES LIMITED – 3QFY25

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 22nd January, 2025 to discuss 3QFY25 results.

Kindly take the same on record.

Thanking you,

Yours faithfully,
FOR VARDHMAN TEXTILES LIMITED

Sanjay Gupta

Digitally signed by Sanjay Gupta
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(SANJAY GUPTA)
COMPANY SECRETARY

"Vardhman Textiles Limited Q3 FY'25 Post Results Earning Conference Call"

January 22, 2025

MANAGEMENT: **MR. NEERAJ JAIN - JOINT MANAGING DIRECTOR, VARDHMAN TEXTILES LIMITED**
MS. SAGRIKA JAIN - EXECUTIVE DIRECTOR, VARDHMAN TEXTILES LIMITED
MR. SUSHIL JHAMB - DIRECTOR (RAW MATERIALS), VARDHMAN TEXTILES LIMITED
MR. RAJEEV THAPAR – CFO, VARDHMAN TEXTILES LIMITED
MR. MUKESH BANSAL - HEAD (FABRIC MARKETING), VARDHMAN TEXTILES LIMITED
MR. VARUN MALHOTRA - HEAD (FINANCE), VARDHMAN TEXTILES LIMITED

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

Moderator: Ladies and gentlemen, good day and welcome to the Vardhman Textiles Limited Q3 FY'25 Post Results Earning Conference Call hosted by Batlivala & Karani Securities India Private Limited.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

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

Roshan Nair: Thank you. Good evening, everyone, and welcome to Q3 FY'25 Earnings Conference Call of Vardhman Textiles Limited.

On behalf of B&K Securities, I welcome all participants and management of Vardhman Textiles to the call.

We have with us today, Mr. Neeraj Jain, Joint Managing Director, Ms. Sagrika Jain, Executive Director, Mr. Sushil Jhamb, Director, Raw 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, Sir.

Neeraj Jain: Thank you. Good afternoon, everyone. Welcome for Q3 Conference Call on the Quarterly Numbers.

We had a board meeting today and I am sure the numbers you would have seen by this time.

So, the business continues to be there are all ups and downs with the business, on one hand, spinning business is still struggling with the higher raw material compared to the international prices, whereas the fabric business is doing better. So, as a result, the overall results of the company compared to Q2 are a little low, but if we compare it with the corresponding quarter, they're definitely far better than the corresponding numbers.

So, in terms of the utilization, I think both businesses we are doing good, both the businesses in terms of the customer base, product base, or the utilization, company is doing pretty good. We have announced lots of capital expenditure in the last two quarters. That's all in place and I think that's all going as per the plan only. So, there are a few fresh CAPEX which have been announced for the modernization as well as for some sustainability, etc.,

So, we can straight come to the Q&A, and we can deliberate and we can discuss all the issues which comes by way of a viewer one-by-one. Thank you very much.

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

Avanish Chandra: Sir, my first question is on the margin front. I mean, I understand that spot spread and the company performance cannot be related to one-on-one, but cotton prices has gone down in Q3 and yarn prices. Whatever industry data we look for, there was a good spread versus Q2, there was a good improvement in the spread, but that is not getting reflected at all in sequential margin improvement. Could you just highlight this thing that whether we will have better improvement in Q4 with some delay or any other reason?

Neeraj Jain: So, if we look at Q2 versus Q3, when the Q2 started, the New York Futures was also far better and the international prices were also better. Over a period of the last two, three, four months, the New York Futures continue to come down and it is now ruling in the range of about 67, 68 US cents per pound. About the India prices, the point is right that Indian prices have come down because if you look at two, three, four months back, it was almost in the range of about Rs.58,000, Rs.60,000 a candy, which has now come down to Rs.54,000. So, from that perspective definitely there is an improvement in the Indian cotton prices. But as far as our company is concerned, that was not the case because we had bought the cotton last year and the cotton which we were using in the 2nd Quarter was bought almost about a year back and our average, cost was in the same range of Rs.53,000, 54,000 only. So, though the market price of cotton was higher, so people got losing money whosoever was buying cotton at that stage, we were not losing money, but at the same time the margins improvement did not happen for us because our actual cost was almost same in the 2nd Quarter versus 3rd Quarter. So, that's why this is not showing improvement. Two, the overall yarn prices also tumbled to some extent because of the New York Futures. So, I think since the yarn prices did not increase, cotton prices remain same so I think that's the reason the numbers could not be improved.

Avanish Chandra: But we can go for Q4, right, because the lower cotton prices, which is now that will get reflected somewhere in our number, right?

Neeraj Jain: Not really. Not really. Because if we go by let's say last six months versus next three months going by today's cotton position, there is no change in our cost of raw materials. So, we bought the cotton as I mentioned in the last season at the average cost of Rs.53,000, Rs.54,000 a candy which we have been using for the last six months. The current prices are also same. So, whatever we are buying today, even if we continue to use in next three to four months' time, there is not likely to be any major improvement in the margin unless New York Futures increases or the yarn prices improves.

Avanish Chandra: And last thing on this front. How much cotton inventory we are carrying?

Neeraj Jain: So, the season in India starts somewhere in October, November only. So, I think it's only about last two months, two and a half months where the cotton is coming to the market. So, to that extent, I think we have started buying it slowly and typically we have a six month stocks or seven month stocks by the end of 31st March. So, it looks like going by today's pace, we may be close to that figure zone by 31st March.

Avanish Chandra: You have talked about CAPEX in various conference calls and various phases also you have highlighted all the CAPEX in bits and pieces. Just for clarity purpose, if you can just talk about this much CAPEX in yarn, fabric and modernization and at what stage all the projects are that will be very helpful?

Sagrika Jain: So, the total CAPEX announced by the company is in the range of about Rs.3,400 crores. And out of that all the schemes we are working in, except one of the project where the government approvals are still not there, that's close to about Rs.400 crores or Rs.500 crores. So, the work which is going on as of now is almost close to about Rs.2,800 crores. That's all going as per schedule only and we expect that within this calendar year, maybe by November, December, this CAPEX will get completed.

Moderator: The next question is from the line of Keshav Garg from Countercyclical PMS. Please go ahead.

Keshav Garg: Sir, I am trying to understand that you alluded to the fact that yarn prices also declined quarter-on-quarter. So, if you could quantify that on a per Kg basis, what was the average yarn realization in the 3rd Quarter and what is the average yarn realization at present and what is our cost of cotton? I think you already answered that it's around Rs.54 Kg if I understood it correctly.

Neeraj Jain: So, if we look at six months back, the yarn prices were almost in the range of $3.25 US cents or so per Kg and slowly depending upon the position of the company, it kept coming down. And as of now, the current prices of yarn are in the range of about $3 per Kg.

Keshav Garg: This changed quarter-on-quarter?

Neeraj Jain: Second to 3rd Quarter.

Keshav Garg: So, from 3rd Quarter till today that is fourth quarter.

Neeraj Jain: No, no, this price is third to fourth is only 15, 20 days has gone, so prices are almost same today also.

Keshav Garg: And sir, how is the demand/supply situation for yarn globally and as well as in India? And sir, by how long you think that the demand will take care of the excess supply so that our yarn spreads can go back to the pre-COVID level and where we used to do around 16% to 20% EBITDA margin which has now come down to 13%?

Neeraj Jain: I don't know. Where have you seen this 13%?

Keshav Garg: No, sir. I am saying that right now our standalone EBITDA margin is around 13% and pre-COVID if we look at FY'16, '17, so it used to be around 20% operating margin, even in FY'19 it was 18% and then this margin shot up during FY'22, which was an aberration and now it has come down to low to mid teens. What I am trying to understand is that when will our yarn spread normalize?

Neeraj Jain: So, first question is on the demand and supply. Overall demand is okay. There is not much of a concern on the demand side. So, I think in terms of international demand or domestic demand, it's reasonably okay. On the supply side because of the very bad margins in last two years I think there's lots of small capacity which we understand as the industry estimation has already stopped. As per the estimation done by one of the large esteemed players, it is understood that almost 6, 6.5 spindles have already stopped in India on a permanent basis, which is almost like 15% of India's capacity, and to that extent also, I think demand/supply is getting adjusted. So, from the demand side, I don't think there's really a big issue as of now. Coming to the margin, while margins are lower for Indian textiles players. Our raw material cost today is much higher than the international prices. If you look at the cotton cost in India for the last 15, 20 years will always be on an average, 4 cents to 5 cents higher than the New York Futures. But this is the time, even today, India Futures is at 67, 68 cents, Indian cotton is available at 80 US cents. So, we are 12 cents higher than the New York Futures. Yarn prices get established based on the New York Futures that anyone who is getting a cotton that's in Vietnam or in Bangladesh or in Indonesia what is the cost of cotton for them and how do the pricing happen. So, to that extent, Vietnamese spinner is still making money. But when it comes to India, we have two issues which we have explained or discussed earlier also; the one issue is our cotton prices have become higher because of the minimum support price, where the CCI is buying the cotton at a minimum support price from the market. As a result of that, our market size of cotton today is Rs.54,000, which is equivalent to 80 US cents. So, these situations once in a while they come earlier also, but at that stage we used to import cotton in India and which will neutralize all the excess cost over here. Unfortunately, we have import duty and import of cotton, almost 11%, which was imposed by the government in the budget 2021. As a result of that, the import in the cotton in India is still going to be 11% higher. These are the two reasons. The Indian cost today is much higher compared to the world markets. So, the situation will not improve by demand and supply only till the time our raw material prices comes down to normal. And this is the reason our margins are low. The moment our raw material price comes in line with international markets, I think the margins would improve immediately after that. So, it's nothing to do with the demand/supply. It's more to do with the raw material cost, which is much more expensive in India compared to any other part of the world today.

Keshav Garg: If we see pre-COVID, then what's the situation different like, I mean then what is today because I am I understand the MSP to be then also and cotton corporation used to buy cotton then also. So, what has changed from pre-COVID to now?

Neeraj Jain: So, there are three things which have changed. One, New York Futures used to be in the range of about 75, 80 US cents. So, even if the MSP was increasing over here, the Indian MSP was still lower than the international parity. So, as a result, it was not impacting us. Today, New York Futures is at 68 cents, whereas the Indian cotton or the MSP of Indian cotton is almost equivalent to 80 cents today. So, our cost has become higher. So, one, New York Futures has come down, two, India is increasing the MSP every year from 5% to 7%. So, three years we have increased it almost by 18%, 20% and with the international prices not going up we have become costlier compared to the world markets. And the only corrective course for the India spinning industry was to import cotton so that our cost is not higher than the world market even though the MSP could be higher. But unfortunately, in 2021 there was an import duty which was imposed by the government in the budget. So, we can't import also. So, in the last three years, our situation of raw materials actually gone against us. So, all three factors are forcing spinning players not to do good in India.

Moderator: The next question is from the line of Pankaj Bobade from Affluent Assets. Please go ahead.

Pankaj Bobade: Sir, how is the situation in Bangladesh? Is Indian textile industry benefiting out there?

Neeraj Jain: So, Bangladesh condition is okay. There has been some instances where there are some distresses in different parts of the country. But if you look at their core figures, their overall production or our sales, the Indian yarn going to Bangladesh, there is no reduction in that and we understand from our India customers, we are running full capacities. So, as such, there doesn't seem to be any major concern from the Bangladesh perspective.

Moderator: The next question is from the line of Vikram Suryavanshi from PhillipCapital. Please go ahead.

V Suryavanshi: We understand the impact of a very high cost of raw material for cotton. How it has affected our yarn export which you used to give on monthly basis? How is our export volume if you can share? I think that will be helpful.

Neeraj Jain: So, Indian yarn export we used to do almost 100 million Kg of export from India as a country. So, in this period also, if you look at last 10 months, 15 months, our average export from India is in the range of about 100 million Kg only. There is no reduction as far as the export is concerned from India.

V Suryavanshi: So, basically, volume has remained, but margin is under pressure?

Neeraj Jain: Correct.

V Suryavanshi: And in terms of capacity utilization in fabric, how much it is and how we can look at our export opportunities in fabric going forward?

Sagrika Jain: So, currently our fabric utilization is at almost 100% and as you rightly know that we have already planned for another production line expansion in our plant and the expansion should be coming at around September this calendar year.

V Suryavanshi: Would it be possible to share what would be the mix within fabric in terms of raw material between cotton and say synthetic?

Sagrika Jain: Our expansion the one that I just spoke about would be more cotton.

V Suryavanshi: Within our spindle, is there an ability to convert some of the spindle into synthetic blend the way we are seeing demand is growing particularly some of the blends and all?

Neeraj Jain: We are already doing that, but unfortunately even on the blended yarn, there is a problem because we have a law in India now there any import of polyester or viscose, we require to get approval from (BIS) Bureau of Indian Standards, and which has to be certified by the government or BIS even for the factories which are situated outside. There is no registration the government is doing. As a result of that, there is no import of polyester or viscose is coming to India. So, today, the Indian prices of polyester or viscose are almost costlier by about 10% to 15% compared to any spinner which is getting it either in Vietnam or in China. So, unfortunately, the tariff that which has been imposed and as a result of that, they are not really very, very competitive on those products also in the world markets.

V Suryavanshi: But sir, I think while listening to you then if we look at when we are talking about increasing the export for India and we have disadvantage of almost 11% in a quarter, again 10% to 15% disadvantage in synthetic, won't you think it will be major bottleneck for our target for export and how industry is looking to address this issue?

Neeraj Jain: It's a big concern because exports can happen only if the manufacturing sector keeps improving. So, on the spinning side, we are very clearly looking at there's no expansion happening. And if you look at the machinery manufacturers today, they are all running at an average utilization of 40%, 50% only. So, one, there is no expansion happening, two, as I mentioned earlier as per the industry estimate only, almost six, six and a half million spindles has stopped and remaining also still not making money, for most of this spinning sector, the modernization are also not happening. So, I think as of now, there seems to be a concern till the time the government decides on the basic raw materials.

V Suryavanshi: And last question is how is the cotton production outlook?

Neeraj Jain: Cotton cultivation came down by about 7-8% last year, but at the same time I think the weather has been favorable. So, it looks like last year the total crop was almost 31 million bales in India. CAI has given an estimation of 29.8 million bales, but there could be a possibility that's going to almost 31 million bales as well. So, in terms of crop size, we can be comparable to the last year. It looks like as of now.

V Suryavanshi: But because the prices are below MSP, is there any divergent to other crop next season?

Neeraj Jain: Not really, because the prices are lower than MSP. The farmer doesn't have any impact on the same because CCI is buying. So, example today this season the total 17 million bales have come to the market till now and 45% has been procured by the CCI only. So, no issue or a concern to the farmer because they are in a position to get the MSP whether the market buys or CCI buys. CCI buy has been buying and today they'll have one of the biggest stock available to them, almost 7.5 million bales or so. So, out of 17 million bales which have come, CCI have procured 7.5 million bales and they're all holding it into their stock as of now. That itself shows the market is not ready to buy at these prices.

Moderator: The next question is from the line of Rupam from Investwell Private Limited. Please go ahead.

Rupam: Actually, I missed the part regarding the CAPEX plan. So, could you just provide in detail what kind of CAPEX and what is the ongoing CAPEX and upcoming CAPEX plan with the timeline?

Neeraj Jain: So, we announced a normal CAPEX of Rs.850 crores in one of the schemes which is going on as per schedule and we expect it to be completed by maybe June this year. In addition to that, we announced 100% synthetic filament-based product. That's about 350 crores. That's also as per the schedule and we expect it to be commissioned within this calendar year itself. In addition to that, we have announced almost Rs.600 crores for the sustainable for the green power. All that CAPEX is also likely to be completed within this calendar year. In addition to that, we announced a fourth line of our fabric processing with the cost of almost about Rs.400 crores, but that'll also get completed within this calendar year itself. In addition to that, today we have announced another CAPEX of almost Rs.400 crores and that also we are expecting it to be completed within this calendar year. So, except one open end project of almost about Rs.450 crores we have to get the approval from the government. I think remaining Rs.2,800 crores is going as per schedule and within next 8 to 9 months' time or 10 months time most of this will be completed.

Moderator: The next question is from the line of Nirav Savai from Abakkus. Please go ahead.

Nirav Savai: So, my question was the total CAPEX you said is about 2,400 crores, right? And of that 850 crores is…can you just break up? I think you said green power is about 600 crores. And filament yarn you said about 400 crores, right?

Neeraj Jain: So, the normal CAPEX of yarn and fabric is almost about 1,200 crores, 600 crores is the green power, 400 crores for the fabric expansion of weaving existing lines, another 400 crores for the

100% synthetic fabric business and another about 500 crores on the open end project, which I said as of now it's on hold.

Nirav Savai: So, if I look at this ongoing 1,200 crores CAPEX, which is the end of fabric and yarn, what kind of capacity do we see this post completion or is it replacement of existing machines?

Neeraj Jain: So, on the spinning side, it's all replacement of the existing machines, except some marginal improvements can come into that. On the fabric side, the weaving capacity of 400 crores will add about 30, 31 million meters per annum capacity and the 100% synthetic product will have 15mm per annum capacity.

Nirav Savai: So, synthetic is about 15mm, right?

Neeraj Jain: Synthetic is 31 million cotton line.

Nirav Savai: In this fabric expansion, which you said separately 400, how different is this?

Neeraj Jain: No, that same existing line of business.

Nirav Savai: Part of the 1,200 crores only.

Neeraj Jain: Yes, but it is only modernization CAPEX.

Moderator: The next question is from the line of Mohammed Patel from Care Portfolio Managers Private Limited. Please go ahead.

Mohammed Patel: So, I just wanted a clarity. You said the procurement cost of cotton for current year is almost similar to last year at 53,000, 54,000.

Neeraj Jain: Yes.

Mohammed Patel: My next question is related to margins. So, with the ongoing CAPEX, which is focused on modernization and green energy, which is going to lead to cost benefits, so can this lead to the margins improving from current 13% to 15% by FY'27?

Neeraj Jain: We're hoping because all these CAPEX, which is being done, definitely there should be an improvement in the margins on two accounts. There will be cost reduction because of the modernization and also we will be more flexible and there could be a possibility for us to do more value added products as well. So, hope is this only that with this kind of modernization our EBITDA should improve by 2%, 3%. Let's look at that.

Mohammed Patel: It should happen starting FY'27?

Neeraj Jain: Yes, yes, yes, sure.

Moderator: The next question is from the line of Ritwik Sheth from One Up Financial Consultants Private Limited. Please go ahead.

Ritwik Sheth: So, what is the cotton yarn spread in Q3 versus Q2?

Neeraj Jain: The spread if you look at the Indian cotton is almost in the range of about 70 US cents per Kg of yarn.

Ritwik Sheth: In Q3?

Neeraj Jain: Yes.

Ritwik Sheth: And Q2 would be closer to 60?

Neeraj Jain: So, Q2 was almost, I mean, a little better or I'll say almost compatible.

Ritwik Sheth: So, around $0.70 only?

Neeraj Jain: Yes, yes.

Ritwik Sheth: And sir, earlier you had mentioned that at $1 -

Neeraj Jain: So, if you look at 321, the benchmark always used to be about $1.

Ritwik Sheth: So, basically at $1, you would make enough money to expand in spinning capacity like and that would get corrected if the cotton prices are in line with the New York Futures as you were earlier?

Neeraj Jain: Correct, correct.

Moderator: The next question is from the line of Monish Ghodke from HDFC Mutual Fund. Please go ahead.

Monish Ghodke: Sir, in the opening remarks, you highlighted that polyester prices in India are expensive by 10% to 15% as compared to global prices. Since we are doing CAPEX in man-made fabric, so how do you plan to price this product, will it be at par with global prices or it will be higher and what kind of a segment are we targeting here?

Sagrika Jain: So, regarding raw material for our synthetic project, so yes, as compared to the rest of the world, prices in India can be higher. So, we do plan to have a local base and an import base as well. So, we are currently exploring what options are like, Taiwan is there, China is there, Korea is also there, Japan is there. That exploration is happening. At the same time, we will be working alongside the domestic players and developing certain products which may not be available. What was your second question?

Monish Ghodke: So, what kind of a segment are we targeting? Is it for export? I mean garment, so you'll be exporting, or will it be for domestic? And many times, when we speak with garment they say that good quality processed fabric is not available in India, which is at par with global standards. So, are we striving for that kind of a segment maybe at leisure wear or something like that?

Sagrika Jain: So, woven synthetics would more be outerwear. So, the jackets that we have wing sheeters that would be the segment, and it will be a mix of domestic and export both.

Monish Ghodke: But the pricing will be at par with? global prices, right?

Sagrika Jain: 30% is out of BIS. So, we should be okay. And also apart from that there is weaving and there is processing. So, we will be selling high value-added products. So, we will try to counteract and mitigate the impact of raw material prices.

Monish Ghodke: Pardon me if you have answered these questions before, this modernization CAPEX of 330 crores we are doing, are there any spindles addition which is happening?

Neeraj Jain: Not really. So, some small changes were more of a modernization where the existing machines are being replaced with the newer one to take advantage of utility cost or maybe automation, reduction of power, etc.,

Monish Ghodke: But sir, this will be a part of your regular maintenance CAPEX, right, I mean -

Neeraj Jain: Normally our regular maintenance CAPEX do about 150 crores per year. This time since it was much larger than our normal CAPEX that's why we have disclosed this to the stock market.

Monish Ghodke: So, this is like our maintenance 250 plus this is 330, right? I am saying will this continue to be there, I mean is it expected to be like could you throw some like what is the average age of our spindles and how much maintenance CAPEX now we have to do going forward due to modernization?

Neeraj Jain: Average age of a spinning machine part would be in the range of about 10 years now. So, I think going forward the normal CAPEX or the replacement for CAPEX to my mind should not be more than 150, 200 crores per year.

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

P Jhunjhunwala: Just wanted to understand what will be the revenue addition and profit addition that you're looking from this entire CAPEX of around Rs.3,400 crores?

Neeraj Jain: So, on the spinning side, I don't think there's any revenue addition which is likely to happen. Even the green power I don't think there's any top line increase will happen. The top line increase will happen only with the 45, 46mm capacity which will be pro rata to our existing capacity. So, Rs.150 per meter versus 45 million meters.

P Jhunjhunwala: So, 45 million meters is the processing capacity that we are adding? 31 was the number right. What it is?

Neeraj Jain: No, 31 + 15 of synthetic.

P Jhunjhunwala: And sir with this replacement, what kind of efficiency improvement or margin improvement? 200 bps margin improvement that you mentioned earlier in the call. Is it global or eventually because of market forces it can be passed on to the customers?

Neeraj Jain: Prerna, that's a guess. I can't really comment on that what would happen with the market forces and showing it the today's circumstances whatever we are doing had that been available today or just our margins would have been better by 200, 300 basis points. 200 is surely possible. But what will happen to the market? We can't really comment on that. It can be better; it can be worse also. So, that's beyond our control.

P Jhunjhunwala: In the synthetic business, what kind of margins are we looking at because this is a specialized product that we're doing for outerwear, jackets and all, is the margin better than the existing fabric business or is it in line with that?

Neeraj Jain: What I understand, there are two segments to that. One is the basic replacement of apparel fabric. Second is specialized products. If we are going to be the new entrant in this and we have to learn this business as well. So, my feeling is as we keep understanding the business, we'll start moving towards more and more value-added products and. On the technical textiles, definitely margins can be 25%, 30%, 35% as well, but it will take us some time to learn it, develop it, create the market for that and it's only beyond that. On the basic products, it could be in line with our existing margins of the fabric apparel business.

Moderator: The next question is from the line of Mohammed Patel from Care Portfolio Managers Private Limited. Please go ahead.

Mohammed Patel: Do you expect cotton yarn spread to improve in near term? So, are there any factors which can turn favorable?

Neeraj Jain: So, basically there are only two, three factors which can help us: One, if the New York Futures goes to about 74, 75 cents, things start improving in India. That could be one. Second is rupee to less than Rs.90 and in US cents cotton prices comes down. That could be another trigger. Government of India's view on allowing the import of cotton duty-free. Even then, our margins would be better. If overall demand improves much better than the existing demand. So, these are all macro level issues. Two are macro level and two are related with the Government of India. It's really, really very difficult for me to comment. I think the only doable or a possible thing looks like if the New York Futures improves by about 500, 600 basis points, definitely things will start improving in India also.

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

Anik Mitra: Sir, what is the current yarn and cotton spread in Indian currency term?

Neeraj Jain: So, even in the Indian cotton or the yarn spread is what I mentioned is 70, 72 cents. If you calculate it with the rupee of 85, it will be close to about Rs.60.

Anik Mitra: Considering the current Bangladesh situation, the Bangladesh is a major player in the garmenting, so is there any opportunity if Bangladesh loses market share in US, Indian companies can capture that market share?

Neeraj Jain: First of all, as I mentioned earlier also if we go by the Bangladeshi numbers of exports there, there is no reduction and rather they are improving it only. So, it looks like there doesn't seems to be any concern on a macro level basis. Maybe some area some companies issue could be there. But if you go by their numbers, I think it's not reducing at all. Two, Bangladesh has become a very big player and their exporters already touching almost $40, $42 billion as of now, whereas the Indian garmenting export is only about $15 billion. It looks like Bangladesh in the next five to six years can touch maybe about $75, $80 billion also because of two major reasons. One, they have an advantage of GBP where Europe allows them for the duty-free exports. Two, in garmenting the labor cost plays a very, very important role and it is almost about 25% in the garmenting, 20% to 25% is the labor cost only. Indian labor cost today is close to about US$200 per person per month, whereas the Bangladesh is still ranging about US$100 or so. So, there were huge advantage of much less labor cost. As a result, they are competitive compared to India. Third, for any business to create capacity, one is opportunity, second is the margins. I think we do not have those capacities which are required by the world markets as of now. So, if there is a major concern happens in Bangladesh, probably that opportunity can come to India. But as of now, they are continuing to grow big way because of the two advantages which I mentioned to you. But yes, if the situation goes out of control or goes very bad over there so the brands starts looking at a different country and amongst those countries, India could also be one of the participant to take advantage of that. But that's not visible as of now at least.

Moderator: The next question is from the line of Avanish Chandra from SMIFS. Please go ahead.

Avanish Chandra: Sir, we are hearing lot of good sound noise for textile industry in the budget. People are talking about 10%, 15% higher budget for textiles and then government may reduce some duties on man-made side raw materials. So, any assessment on those budgeting and any benefit that Vardhman can draw from the budget?

Neeraj Jain: I think it'll be too premature for me to comment on what the government is going to do in the budget. We are left with only less than two weeks as of now. So, let's wait and watch please.

Moderator: Ladies and gentlemen, as there are no further questions for today, I would now like to hand the conference over to the management for the closing comments.

Neeraj Jain: So, thanks all the investing community which has shown confidence in us and being a part of the company for a long period of time. Though there is concern on the overall spinning industry specifically, but at the same time our fabric division is doing very, very good, both in terms of utilization and the profitability also. We are also hopeful going by the industry situation, government will take some decision sooner or later, and in the meantime, whatever best can be done in terms of the internal efficiencies, operational efficiencies or the customer base of the industry, the company is really, really working very hard to achieve that so that even in these kind of difficult times, we can pass through this time profitably or with better margins compared to the industry peers. I am sure as the situation improves or as any favorable decision comes in certainly we'll look at a better improvement in the margins also. But in the meantime, we're preparing ourselves notwithstanding with a difficult situation. Our CAPEX is one of the highest this year because we believe that sooner or later things will be better and definitely going by the patronage of our customers, products we are surely much more hopeful for the future, and we believe we can add lots of value for the overall textiles chain in India. So, thanks once again or your patience as well as your stability in the company with your shareholding and I am sure as management we will not leave any stone unturned to pass through this difficult time also. Thank you very much.

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