sutlej
textiles and industries limited

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CIN No. : L17124RJ2005PLC020927

22nd May, 2019

BSE Limited	National Stock Exchange of India Ltd.
Phiroze Jeejeebhoy Towers,	Exchange Plaza, 5th Floor, Plot No.C/1,
Dalal Street, Fort,	G-Block, Bandra-Kurla Complex,
Mumbai 400 001.	Bandra(E), Mumbai 400 051.
Scrip Code: 532782	**Scrip Code : SUTLEJTEX**

Dear Sir / Madam,

Subject: Transcript of quarter and year ended 31st March, 2019 earnings conference call held on 10th May, 2019

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, kindly find enclosed a transcript of the earnings conference call for the quarter and year ended 31st March, 2019 which was held on Friday, 10th May, 2019. The same is also available on the website of the Company i.e., www.sutlejtextiles.com.

The conference call held on 10th May, 2019, as per the enclosed Transcript incorporates mainly the highlights of financial results upto 31st March, 2019, and other related information which is already in public domain and/or made available / uploaded on the Company's website.

Please take the same on record.

Thanking you

Yours faithfully
For **Sutlej Textiles and Industries Limited**

Manoj Contractor

Manoj Contractor
Company Secretary and Compliance Officer

SUTLEJ TEXTILES AND INDUSTRIES LTD. Bhawanimandi (RAJ.)

“Sutlej Textiles and Industries Limited Q4 FY19 Earnings Conference Call”

May 10, 2019

MANAGEMENT: **MR. S.K. KHANDELIA – PRESIDENT AND CEO**

MR. BIPEEN VALAME – WHOLE-TIME DIRECTOR & CFO

Moderator: Ladies and gentlemen, good day. And welcome to the Sutlej Textiles and Industries Limited Q4 FY19 Earnings Conference Call. 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 the operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Bipeen Valame – Whole-time Director and CFO. Thank you, and over to you, sir.

Bipeen Valame: Thanks and good afternoon everyone. I welcome you all to Earning Conference Call of Sutlej Textile and Industries for Q4 and Financial Year 2019. I have with me Shree. S.K. Khandelia Ji – President and CEO of the Company and Stellar IR, our Investors Advisor Firm.

The Investor Presentation has been uploaded on the Exchanges and I hope every one of you had unfortunately to go through it. Financially Year 2019 was a challenging year for the company with headwinds arising on account of subdued demand and changing in market dynamics because of structural changes in government policies. We believe our efficient operating capabilities help us to consolidate during the year. Initiatives towards backward integration into green fiber yarn to further enhance company's operational performance will benefit in future.

Commenting on the performance during the quarter:

EBITDA margin improved by 70 bps year-on-year during the quarter-ended on March 2019, on account of efficient use of power units and higher localization of solar. Cotton and polyester prices continued to be at elevated levels.

During Quarter 4 FY19 the company reported total income of Rs. 617 crores as compared to Rs. 610 crores in Quarter 4 2018. For the financial year ended on 2019, consolidated total income stood at Rs. 2,642 crores, 5% year-on-year growth against Rs. 2,510 crores in FY18, supported by increase in realization in yarn segment.

Sales volume for the yarn during FY19 was 108,138 metric ton compared to 106,159 metric ton in FY18. Home textile production was 6 million meters in FY19 as compared to 7.8 million meters in FY17. Export sale for the year stood at Rs. 930 crores as compared to Rs. 782 crores in FY18, portraying a growth of 19% year-on-year basis. Export as a percentage of overall sales stood at 36% for FY19 as compared to 32% for FY18. Export growth was mainly led by higher realization in our effort to diversify our portfolio in different geographies.

EBITDA for the quarter ended March 2019 was at Rs. 57 crores, with EBITDA margin of 9.3% compared to Rs. 53 crores, and EBITDA margin of 8.6% in Quarter 4 FY18. For FY19 consolidated EBITDA stood at Rs. 240 crores compared to Rs. 281 crores in FY18. The company reported a net profit of Rs. 15 crores for Quarter 4 FY19 as compared to Rs. 10 crores in Quarter 4 FY18.

Lower finance cost on improved operational efficiencies helped the growth during the quarter. During FY19, Sutlej recorded a consolidated net profit of Rs. 58 crores as against Rs. 113 crores, including exceptional gain of Rs. 42 crores last year in corresponding previous year.

I would now request Shree. Khandelia Ji to share the business outlook and industry scenario. And then we can open the floor for question-and-answers. Thank you and over to Shree. Khandelia ji.

S.K. Khandelia: Thank you, Bipeen. Good afternoon, everyone. And thank you very much for joining us once again on this Conference Call. I will start by reiterating what my Chairman has stated in his press release. And I quote that, "the challenging business environment for the textile industry continued during the due to subdued demand. The situation was further aggravated by unprecedented fluctuations and raw material prices and exchange rates that created even more uncertainty and further dampened market sentiments. This resulted in intense competition, subdued product prices, and lower margins. We could counter the challenges to a large extent because of our varied product mix and value-added yarns. Sutlej will continue to focus on consolidating its operations and improving efficiencies all around during this phase of prolonged recession."

Now, I would like to elaborate a little on the various items which he had mentioned:

There has been a severe demand supply mismatch. After demonetization, followed by GST rollout and frequent changes in the policies of GST and inverted duty structure for synthetic yarn and fabrics and fibers, and no provision for refund for accumulation on GST accumulation by fabric manufacturers, and such other things disturbed the business, particularly of the textile industry. The cost in synthetic on fiber, initially the fiber the duty is 18%, on yarn also initially it was 18%, subsequently reduced to 12%, and on fabrics it was 5%. And with the provision not to claim refund for the accumulation.

Essentially, only this year from August Government has allowed the refund due to inverted duty structure to fabrics. This means whatever you have accumulated up to 31st July can't be utilized, except for clearance of the stocks. And then there are various issues still going on relating to inverted duty related refunds in case of fabrics. So, all these things have been disturbing the demand. So, this created a serious demand-supply mismatch. While their production by everybody continued unabated, demand was subdued. And this resulted in intense competition and due to that it was not at all possible to pass on the increase in input costs and other costs to the consumers and this impacted the margins.

So, this situation has been going on since last about two years. And gradually there has been some improvement, but the improvements have been very slow. Now when we were expecting improvement, the general elections code of conduct and so many other things, everybody is busy with the elections, so again for the time being it is again disturbing the business.

Now, I talk to the widespread and unprecedented fluctuations in different aspects which had taken place during the year:

First, I take the raw materials – in case of cotton government increased the support price by 28%. And because of that, the new cotton arrivals started at a very high rate and continued at the high rate throughout the year and have further increased during the year because of the production figures which was 365 lakh bales last year latest have been brought down to 321 lakhs by Cotton Association of India. Unfortunately, in India we are not able to get the reliable information about the cotton crop size. While Textile Commissioner has a different figure, trade industry has a different figure and Cotton Association of India is different figure. But in a nutshell, there is definitely less production this year because of less rains in Maharashtra and Gujarat, and that had impacted the yields and total production.

On the other hand, since the yarn productions is continuing as it is, the demand has remained as it is. So, ultimately it is expected that at the end of the year the carryover stock will be lower than the last year and this is impacting the prices. But on the other hand, China and U.S. trade war is impacting the international cotton prices because USA is one of the major producers of cotton where there is no consumption so he depends on exports. And China was the big importer which has imposed 25% duty on import of the USA cotton. That has rattled the international markets. So, those type of things and fluctuations which has taken place in cotton.

In case of polyester, we have seen the fluctuations in the price of crude oil. Polyester is a derivative of the crude oil. So, the price which was up was Rs. 96, the basic price of polyester fiber which was Rs. 96 per kg in the beginning of FY18-19, which was ruling around Rs. 102 sometime in August. Thereafter, it has started increasing and on 4th October, in short time of two months it increased to Rs. 119 that is an increase of 17%. It stayed there for about a month, and then in one month it came down to Rs. 100, a fall of 19%. Market doesn't like such type of fluctuations and in textile industry so when the prices were going up people were buying, but were not ready to pay higher prices because of the subdued demand. So, the industry could not pass on the increased cost of the polyester staple fiber, which is one of our major productions.

But when the prices started coming down, the customers stopped purchases even at the cost of stopping down their loans. This resulted in accumulation of lot of inventory in October and November. And when the polyester prices come down to Rs. 100 then the sale started. But during that period the mills that used costlier polyester fiber, which resulted in heavy stock losses, this was unprecedented.

Similarly, in case of cotton, since the demand was subdued, even demand-supply mismatch was there even for the value-added yarns, because in throughout the world, the global economy is under stress, it is known to everybody. And on the other hand, the supply is increasing there also. And then during the course of the year duty drawback which was reduced on rollout of GST was not restored. And then it started getting restored in bits and pieces. And recently government has also increased, but still there is a gap of 2% to 3% as against which was there before GST rollout. But at least there has been some improvement and that is reflecting in Q4 Results of that particular segment. And going forward, it will definitely. If you see the garment exports which was seeing continuous negative growth month-after-month has shown the positive growth in last three, four months. So, that is a plus sign. And since the government drives the upward value chain, so the positive growth in garments in last three, four months will be a positive thing for the industry.

So, these types of fluctuations were there and the cost has been increasing which the industry could not pass on due to subdued demand, and this is the reason and this position has been continuing since last two and a half years which started from the demonetization. But these things are coming to an end or the impact of all these things are getting reduced. So, I feel that once these elections are over, and again stability returns, because the pipeline is more or less to a large extent, at least in retailer front, or particularly in winter-related yarns, in winter-related yarns there is no accumulation anywhere, either with spinning industry or with the manufacturers or with the retailers. That's a good sign for this year and that should help us because we manufacture lot of winter quality yarns.

As you have seen from our results and other things that our exports have grown substantially during the year. As the domestic market was not doing well, of course, export was also not doing well in most of the items because export prices are also fixed based on the domestic prices and exchange rate on that particular day, this in case of textiles, particularly yarn, particularly yarn because we have a majority production of yarn still. So, those prices are based on the domestic prices. So, because of that, but we had been diverting towards value-added yarns where the competition is comparatively less, we are developing different end use. So, because of those value-added yarns and consolidation of our all the operations, cutting costs and improving efficiencies has helped us to face the challenges posed by these difficult conditions.

So, you see, all these things are behind us. I am hopeful that going forward we have the strength we have consolidated and this will definitely improve the business. You must have seen that in Damanganga Home Textiles, our home textile business, we have suffered heavy loss this year. And unfortunately, what happened, I will explain to you, our home textile segment's capacity increased, coincided with the demonetization and then rollout of GST. So, we increased our capacity many folds from 2 lakh meters a month to 8 lakh meters a month that is about 2 million meters a year to about 8 million meters – 9 million meters a year. So, this increased capacity could not be absorbed. On the other hand, interest, depreciation, fixed expenses, which were organized this year for, for example, the cost of the staff say designing, development and other staff which was not to full extent, but to a large extent were organized to take care of this enhanced capacity, those expenses were there. Because it is a temporary phase, its not a permanent phase. So, those staffs are there, those cost is there. And then depreciation cost is there, finance cost is there, those are the fixed charges. So, that is the reason that unit could not do well. There has been gross underutilization of the capacity.

But to face this challenge there are two, three things. One, that the market is not likely to remain like the same. Second thing, we have further strengthened our designing and marketing team to take on and to produce much value-added items where the competition may be less. So, that we have done. Another thing, we are increasing our product offerings, and for that we are in the process of ordering, installation or other things for various machines like printing, digital printing, embroidery, fancy yarn, curtains and upholstery, and wide-width fabrics and printing dying, these machines are going to be added in due course of time, for which we already have the sanction from the Board. And hopefully, within this year all this will be in place, because some of the orders have already been finalized and some are in the process of negotiation and other things. So, once all these things are established and installed, our product offering will increase considerably and that will help us to utilize our capacity to a large extent. And as soon as we start utilizing our capacity to a better level, these losses will not be there.

And now I come to the ASM, another which you might have seen that in consolidated results. American Silk Mill has resulted in loss this year. You see, in any cross-border acquisition the initial phase is always difficult because there is cultural gap, there are many things which are to be lined up. And because of bad market conditions in India, and of course, in abroad also the things are not so good, we could not leverage the synergy of ASM which we thought initially. And on which we have been continuously working. But it takes some time. So, now we have, as I mentioned perhaps in the last Conference Call, that we have appointed new CEO, who is a very experienced and very talented person, Mr. David as a CEO of ASM, and he has drawn a strategy. In India, our Deputy CEO – Shree. Updeep Singh ji is himself focusing on our Damanganga Home Textiles business as well as driving synergy between ASM business and Damanganga Home Textiles business. And this is going to definitely deliver good results going forward.

So, these are the things, these were the challenges which we faced in Damanganga Home Textiles. And these things I think in due course of time, all this will be over, and the company will be definitely should be able to perform much better once the demand normalizes and we are able to utilize our full capacity in Damanganga Home Textiles. This is what I had to explain to you.

Regarding green fiber that is manufactured out of recycling of PET bottles. We have already started installation of this project and the work is already on, construction work is going on. And it will be commenced as per schedule in Q1 2021. So, the work is going on as per schedule, all main machines and even most of the supporting machines, orders for those have been finalized, small, small things are being done and the team is there. So, that will add value so now we are depending upon many suppliers for such type of recycled fiber and quality issues are there, and those are not branded and other things also. So, once we have our in-house, we will be able to control the quality. And of course, it will reduce our raw material cost to some extent. But the main thing is the quality, so we will be able to add value to that. And other things which we are planning that we will be branding this the green fiber, and the product manufactured out of green fiber, we already have the license in all our spinning units for manufacturing of green yarn, sustainable yarn. And once we have our in-house, we will have the control and quality, once it also has the certification, we will be able to sell much quantity of this recyclable green yarn which has a really good demand, and increasing demand in the world. And the premium is there. And we are also thinking to brand it. So, this is going to add much value going forward.

And I think I have covered most of the things. Thank you very much. Now, the floor is open for question and answer.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Awanish Chandra from Monarch Network. Please go ahead.

Awanish Chandra: Thank you very much, Khandelia sir and Bipeen ji for giving this opportunity. Sir, you have explained the whole demand environment, what went wrong during the year. So, I will come to that. But before that, our margin this time has 70 basis point expense which looks pretty good and we have given the explanation in the present as well. So, will it be one-time kind of thing and we will again go back to the same margin contracts and or we will maintain at least this level what we had in FY19, both on consolidated and a standalone level?

S.K. Khandelia: I think as of now, actually I am looking for the improvement in this margin. If I take the 2019-2020 as a whole year, the first quarter may be a little challenging because elections are going on and there is a labor shortage. But more or less in first squatter also the margins should be in the same lines. But for the whole year 2019-2020 margins what we have calculated and what we have even conservatively what we feel is that the margins are going to improve in 2019-2020 overall.

Awanish Chandra: Okay, sir. At least two, three factors like this efficient use of power unit and rooftop solar at RTM, these things will contribute or anything you feel that from the RM side, be it cotton or your raw material for manufacturing-made yarn, these things will help? So, were you expecting any expense in the margin, two factors?

S.K. Khandelia: Yes. So, far raw material cost is covered so far cotton is concerned, we have covered the cotton at lower prices. And at present the cotton is ruling at much higher rates at which we have covered it. Though in last few days it is coming down because of, again, the tweet by, Twitter handle of Trump on Sunday; so again, due to the international cotton price have seen, and in India also it has come down to some extent, say by Rs. 500 to Rs. 1,000 a candy. But that does not impact us, we have the cotton covered at a much lower rate as compared to these rates. So, so far cotton is concerned we are okay with that. In case of polyester fiber, these types of fluctuations are more or less controlled now. I don’t think in crude oil prices there can be that type of fluctuation which we have seen last year. Then there will be a fluctuation, fluctuation is happening, as you see $70, $65, in worst case it can even go to $80. So, those type fluctuations will continue, but the Iran sanctions and other factors have already been taken care of. And it is more or less, continuing more or less stable. Similarly, polyester prices are more or less stable after these came down to the normal level in December So, in December it was Rs. 100, the basic price, now it is Rs. 105. So, Rs. (+/-2) to Rs. (+/-3) every now and then. Now the whole thing is demand and supply, demand is bound to increase. You see, after all there will be pent up demand going forward, how long one can afford not to purchase or anything, something like that. So, when the elections started and before that, the demand started improving, we were seeing improved demand. And the realizations also started improving, but because of these elections, because these days everybody wants to go to his hometown and vote, so in there is labor shortage. So, these things will be over and from Q2 continuous improvement should be visible, that is what I feel. And overall 2019-2020 margins… And overall 2019-2020 definitely in my opinion should be better than 2019-2019, overall margin will be better, and margins which we have seen in Q4 should actually improve, except Q1, Q1 maybe more or less like that.

Awanish Chandra: Okay. And sir my last question, you have already given a very really detailed explanation on demand environment in FY19. And first quarter you are anyway not expecting much. But as far as hope is concerned for FY20 or FY21, one thing you have talked about the pent up demand, which is still kind of hope thing, if one need to at least look at two, three factors which will really change, because whatever reports we are getting, most of the sectors are witnessing slowdown and even FY20 there will be still a slowdown in those sectors, and even it is now going to the consumer related things. So, apart from pent up demand, can you pinpoint two, three factors where you think there will be really change in FY20?

S.K. Khandelia: I have already mentioned, you see the garments are the growth engine from India. Earlier we used to export 45% to 50% production of the entire textile value chain, if you will see the figures of five, seven years back. This figure is languishing about total export from India of textile and textile related articles are languishing about US$ 36 billion. Government is very much concerned about that and efficiently taken many steps, as I mentioned, that they have improved export incentives. And because of that the garment exports have already started improving. So, that is a one of the biggest factors, once the garment exports increase, that is one of the biggest factors. Another thing is that all these things with the so much fluctuation and other things, because the market never liked so much fluctuation in the raw material prices, but once the stability is there the demand is bound to increase, this is the stability part, the another factor which due to which we feel that the demand will be there.

Third thing, say winter government yarns are mostly manufactured, used in hosiery or in Ludhiana and North India markets, the entire pipeline is empty, entire pipeline is empty, because this year there has been extended winter. So, there is no material at all, and we are seeing good deliveries even now because people will be preparing for the winter garment, and for that yarn is sold up to November. And we whatever we are seeing that there should be pent up demand and there will be -- when I say that, I am definitely feeling like that. It is based on market research and other things, in other countries and also, as I said, we have developed many new varieties of the yarn, we have developed new end applications other than apparel. So, those things are definitely going to help us going forward.

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

Resham Jain: Sir, just wanted to understand that in last three, four months, since January we have seen cotton prices moving from Rs. 42,000 per candy to now close to Rs. 46,000, has gone up to Rs. 47,000 as well. So, with this increase in cotton prices by close to around 15% odd, how much yarn prices have moved up during this last three, four months?

S.K. Khandelia: See, there are two types of things which includes one is the pure cotton grey yarn, number one. In which it all depends upon the exports of grey cotton yarn, movement of the prices. So, for example, when the cotton prices touched to say Rs. 47,000 the rates increased for a particular variety, that is come at Rs. 130 a kg. But with a little power in the cotton prices it has come down much more than that. So, it all depends upon demand and supply. Cotton yarn position had improved in part of the year, but most of most of the time it was under pressure. But in our case we manufacture very little quantity of grey cotton yarn, ours is mostly value-added yarns like mélange yarn and cotton and cotton dyed yarns. We of course, we do manufacture some quantity of grey yarn when there is some problem of the orders of the value-added yarns due to one reason or the other. So, in one of our units only some of these spindles, which we have the flexibility, others have been continuously working on these value-added products. In case of value-added products, such type of fluctuations is much less and depends actually on exports of the garments. So, in our case if the export of garments is improving the yarn rates have of course not increased to that level, which used to be, the gap between the raw material price in yarn used to be there two years back because of the demand was less from the exporters. But once that picks up that difference will again come to the debt level and earnings will improve. So, ours is a different type of yarn, where we have seen that entire, not entire cost increase but majority of that has been passed on. And we have the cotton of the season rates, say maybe about Rs. 40,000 on an average of Rs. 42,500 something, so we have the benefit.

Resham Jain: So, what you are saying is that whatever increases has happened in cotton prices, that munch amount has been passed on in the yarn cost also for your Milan yarn for example, that increase has already happened?

S.K. Khandelia: Not fully, I am saying now fully. Suppose if today if I get my rates on today's rates of the cotton, it has not been passed on fully. Because the garment exports have started increasing, but since I have the cotton I have the other way around, I have the benefit. Given whatever rate has increased I have the benefit.

Resham Jain: And sir going into like in the next four, five months when we will get into the new season and before the end of the current season, do you see any further increase in prices? Because you said that this year, we have like 321 lakh bales, which is lowest in the last eight, nine years. So, what kind of demand supply situation you see we will get into in the next four, five months? Or you see that import of cotton will more or less fill this gap?

S.K. Khandelia: Yes, you are right that for the next season it is very difficult to predict for anybody, and there are no predictions available. And even whatever predictions are available those keep on changing because it depends to a large extent on monsoon, how the monsoon behaves, particularly in Maharashtra, Gujarat, which are the major, and similarly in South India, which are the major cotton growing areas. Of course, in North India say Punjab, Haryana and these areas, Rajasthan, these areas the irrigation facility is there. So, there the fluctuation may be less, the prices have been good to the farmers, farmers could get good prices because of the increase in support prices. So, that part will be okay. But this part will depend upon how the monsoon behaves. But in any case, we feel that this year was abnormal, because particularly the monsoon was deficient in these two states, Maharashtra and Gujarat, the Cotton Belt. So, there if the rains are widespread the production is bound to improve.

Second thing, as you mentioned imports, definitely since South India mill particularly where near to the port, near to the port, they have their advantage of getting the imported cotton, because in their case there is other way around. Say, if they get the cotton from Gujarat and Maharashtra, the bread cost is very high. Whereas if they take it from the imports, because the Indian cotton prices have been higher this year as compared to international prices to some extent, time to time depends upon that because the exchange rate has been fluctuating so much, when it was Rs. 75 it was good to export the quarter. But now when it does come down to Rs. 70 is becoming a challenge to export quarter, Indian cotton at these rates. So, the exports have actually coming down this year and imports are increasing. So, we expect import of about 30 lakhs bales at least, this is the prediction, to a large extent. And exports are less, this will fill up the gap to some extent. But since there is a gap of 50 lakhs in last year's production and this year's production, and this operating itself was about 28 lakh bales only, so the initial was less. So, there will be a pressure on the prices, but it all depends upon international prices, everybody knows these factors, even after the reduction in crop sizes the prices have come down to some extent in recent months. So, but more or less it will be range bound what I feel, say if it is 46,500 - 46,000 today for popular varieties and classics which is the brand, you can say that most the consuming variety in India, or Maharashtra cotton, those are more or less which is likely to be range bound till the new cotton starts and the potion becomes clear. Suppose if the rain is deficient, as of now the monsoon production is of the normal monsoon. So, the rate is likely to be range bound. There cannot be any major increase or decrease.

Resham Jain: Okay. And sir one final question is on the overall spinning capacity additions. So, we have seen the central cap has been removed on spinning since last three, four years. And lot of state has also reduced the subsidy which they used to give for spinning. So, the spinning expansion if you look at overall, I think last 1 – 1.5 years almost it has come down significantly. So, do you see supply situation also coming into play, let's say next two years' time?

S.K. Khandelia: Yes, you are right. The addition in spinning capacity, the spinning capacity has definitely has come to a standstill, more or less. But many state governments are still giving incentives say for Andhra, Telangana, Karnataka, these are still giving incentives even on a spinning. Though, in some of these states this stuff is out, business many states are still giving. Despite that actual addition is not taking place because people have seen the fluctuations and mostly the additions which take place is for grey cotton yarn or PC grey cotton yarn, those are pure commodity, it is not easy for everyone to get into the value-added yarns. So, the capacity addition is less and excess capacity, you see if the export to China pickup even the present capacity will be fully utilized. But if the export to China doesn't increase, then it will take two to three years' time, as you read, but I expect in two to three years' time this capacity is going to get up absorbed, because domestic consumption is also bound to improve, how long we can continue to be at this level of consumption of domestic, we have 130 crores people in India. So, I am very bullish that this, of course in grey cotton yarn there may be some challenge for next two, three years. But in other things, I think this one, two, three years is not required at all.

Resham Jain: One thing which you mentioned just now is on Chinese demand of cotton yarn. Any color on that? Have you seen some improvement, because typically after Chinese New Year we see some…..

S.K. Khandelia: See, in case of China no one can have any prediction, even our export promotion policies is finding it difficult to give any prediction or something. Because Chinese when they start buying, they start buying, when they stop they stop totally. So, in China the things are, and as I said, in India present international prices of cotton are higher as compared to international prices. So, this is another challenge. And in Vietnam Chinese have put up a lot of spinning capacity. There they can import American cotton, there is no 25% extra duty there. So, that is getting cheaper to them. And that's why exports from India has taken a little back seat this time. So, in India itself the consumption has to grow for getting this capacity absorbed.

Moderator: Thank you. Our next question is from the line of Prerna Jhunjhunwala from B&K Securities. Please go ahead.

Prerna Jhunjhunwala: Thank you for the opportunity. Sir, in light of the discussion earlier in the call, how are the spinning margins now, because if Indian cotton prices are higher than international court prices, it is bound to impact our spinning margins. So, how are that?

S.K. Khandelia: See, I have already explained that, we are not in commodity type of yarns. We are in the value-added cotton yarns where fluctuation is not like that of grew cotton yarn. Secondly, we are already covered in case of cotton and a much lower rate as compared to current prices. So, that is another thing which will help us. Third, garment export as you started improving, as I mentioned to you, there is a positive growth in garment exports and that will help us. So, so far we are concerned we have no challenge in this grey cotton yarns and other things.

Prerna Jhunjhunwala: And sir, the next question is on mélange yarn, what is the kind of growth we have seen in it in total mix of sales that we have done this year?

S.K. Khandelia: This year as I mentioned to you, there has been a negative growth in garments. So, we have not seen any growth, whatever we could produce we have been able to sell. Of course, the margins were little less as compared to earlier, which I had already mentioned. Because there is supply, the supply – see, there at present no new capacity as come, but whatever it was there due to less demand supply pressure was little bit there, everybody wanted to have the order, though it is development-based orders. So, it is not easy to cut each other. But of course, we have been able to sell whatever we could produce and we have dried our full mélange capacity.

Prerna Jhunjhunwala: So, we are not even full capacity today in all our…?

S.K. Khandelia: Yes, we have not changed any spindle on grey as of now. Earlier in some part of the year, last year perhaps or maybe in the beginning of this year, some of these spindles will have to be run on grey cotton yarn, because at that time when this duty drawback and other things, export incentives, were grossly reduced from the earliest levels, at that time some challenges was there. So, we had to, about 13,000 or 20,000 the spindle out of about 135,000 or 140,000 spindles, we had to take on grey cotton yarn. But those were very fast, we could take them back on the mélange yarn and all are mélange yarn. Mélange or any cotton blended value-added yarn, PC-Dyed or something like that okay.

Prerna Jhunjhunwala: Okay. So, could you please expand on your growth strategy days, in your presentation you have mentioned growth strategy 2.0. So, what is the strategy and how much growth can we expect in light of this strategy going successful?

S.K. Khandelia: See, number one which we have mentioned is the green fiber, green fiber next year will be a big booster, not necessarily we will use the entire fiber in-house, we may brand it, we may sell it overseas where they fetch good price, because outside the sustainability is a big issue. Another thing, we are very bullish on home textile division, there might be losses, so perhaps people may not be able to appreciate our bullishness at this point of time, but we are very bullish on this business as it is a different type of business. And we are investing in this business. As I mentioned to you that we are adding many digital printings, embroidery and so many other things. So, it will be a big growth factor for us. So, these are the things and we keep on developing the opportunities as it comes to our way, keeping in mind the demand, supply other things. So, growth is bound to be there because we have been generating cash surplus year after year. So, growth will be there and at present, as I mentioned to you, green fiber is under implementation and home textile we are increasing the product offerings, that will be another thing. These are the two things which we are doing this year. And going forward, there can be many more opportunities which we keep on evaluating.

Prerna Jhunjhunwala: So, you have been growing at around 8% to 9% in difficult years also in the last two years. So, what is the goal that we can we can look at it in FY20 or 21 in light of these two strategies?

S.K. Khandelia: See, there are two parts, one is the revenue growth, one is the bottom-line growth. We are more focused on bottom-line growth.

Prerna Jhunjhunwala: Okay. So, should we look at margin expansion of at least 100 bps going forward in FY20 and another 100 bps in FY21?

S.K. Khandelia: This entire situation, and particularly in textile industry we have been tracking, it has always been our question-and-answer session, we have been tracking it very well. So, you are aware that the type of fluctuation which takes place, it becomes very difficult. We have been expecting improvement this year itself, but it did not materialize. So, world-wide if anything happens that does affect the textile margins. This trade war between China and America, that is impacting everything, everywhere, throughout the world, all commodity prices are under stress. So, you never know, but definitely the strength which the company has, as you have seen even in this difficult year our revenues have grown. And in fourth quarter our margins have grown. So, that shows our strength. And keeping that strength in mind and little optimistic picture, not much optimistic but even in optimistic picture, that's what we… earlier we used to have 13%, 14% EBITDA level at this point of time. So, say even reaching 12% or something like that, I think this would be possible. So, you are talking 150, 200, I am trying for 300, 400.

Prerna Jhunjhunwala: Okay. Sir I was just trying to dissect your margins. So, if we are looking at 300 to 400 bps margin improvement, which other segments apart from these two things that can add on to your normal margins? So, that if margins come back to normal in next two to three quarters as you are expecting, so where will be the…

S.K. Khandelia: No, let me be clear. I am not expecting bit change this year, 2019/2020, I am expecting improvement of as compared to 2018-2019, but I am not expecting improvement of 150, 200 overall immediately, say first quarter is under challenge, then there are three quarters, overall there will be improvement as compared to last year. But I cannot say that it can 150, 200 points this year itself. But going forward, definitely, I feel that, it should not be much difficult.

Bipeen Valame: And Prerna, just to add to what Khandelia ji said, what we are expecting is that once the green fiber project starts that should give us some, definitely some benefit in terms of raw material pricing, and the quality and the consistency. So, that could help us to see the improvement on EBITDA side. And we are also seriously exploring the possibilities of having what we have installed right now a solar, because there are a couple of possibilities that said government is considering whether they can reduce the power cost, in Rajasthan particularly, which is pretty high. In our business we have seen two major challenges which Khandelia ji rightly mentioned, one is raw material side and another also is power cost. So, we are also evaluating other options, because in Rajasthan we could put rooftop solar, but in other plants also we are seriously evaluating how we can get some better power cost which directly adds to reducing the cost and better EBITDA cost, including our plant in Gujarat.

Prerna Jhunjhunwala: Okay. So, Sir with respect to this green fiber plant, there have been lot of many plans that are coming in in green fiber, existing players are expanding their capacity, you are entering into this business. So, your raw material sourcing strategy like PET bottles and all, how do you plan to bring that into place?

S.K. Khandelia: In earlier call also, I have explained that we are in the organized sector, we have much better capabilities to procure the PET bottles as compared to others, much better timely payment and other things, and dependable working. So, I don't think we are going to face this challenge. Maybe initially for two months, one of the things get to stabilize and other things, we are not going to face any challenge in my opinion. If others can get it should be definitely possible for us to get it, number one. Second thing, another option is the flex, sometimes imported flex come cheaper as compared to PET bottle process. So, that option is also available. But getting PET bottles because the consumption of PET bottle is not going to reduce because the size of various, even plastic and other things, that is for different things not for these things.

Bipeen Valame: And what have done is that we have also extensively done, I would say, a decent amount of research on how we can create a hub-and-spoke model so that we can collect at different location and bring it at one location at efficient cost pricing. This plant is coming up in Baddi, so if you see the road transportation is pretty good in Baddi. The significant amount of portion will get consumed in Baddi plant number one, because this we call it as unit number two, and large quantity can also get shifted on the road transport in city, that Kathua unit So, we feel that we will have the ability to consolidate the PET bottle as a raw material.

Prerna Jhunjhunwala: Okay. So, we don't foresee any shortage in this raw material because of the expansion?

S.K. Khandelia: See, there are challenges in businesses, but we feel that if anybody else can get why we will not be able to get, we are putting the required infrastructure and required manpower in place, required as you mentioned we will be getting aggregators in different place, we will be having our people at different places they will be buying it. And if anybody else can get it why will we not able to get it, simple.

Prerna Jhunjhunwala: Okay. And sir my last question will be on ASM, what is the annual volume of ASM? And how much can we supply to ASM as synergy at current level of operations? Of course, ASM can grow and stuff like that, its a different story. But current level of operations of ASM and how much can we supply there?

Bipeen Valame: See, what we have been seeing on the calls in the past also, in case of ASM, ASM doesn't have his own manufacturing capacities, and that is not we have purchased. It is basically, the way we are looking at it is, it is a front-end business model with asset light model. So, right now ASM is able to source within USA and weaving mills for the woven product, but they also have a product portfolio in terms of other things, something like the Sensuede which is the outdoor fabrics. Then there are other things like what they are having as velvet, silk material. So, what is ASM, ASM is having lot of flexibility. In terms of synergistic benefit, we definitely did some business from Damanganga to ASM, going forward we are expecting as the volume increase in ASM we will be able to provide the woven product to them at much competitive pricing, so which will add to the top-line as well as the bottom-line on a consolidated basis. But at this point in time we are having the strategy which is separate for Damanganga to grow their business and American Silk Mill as their standalone separate business, for which we have hired the CEO and the entire team, including design and sales team, as Khandelia ji mentioned.

Prerna Jhunjhunwala: Okay. So, that right now the volume is not very high, insignificant maybe?

Bipeen Valame: Yes, compared to, like if you look at the size of Sutlej, yes, the yarn business the size of ASL only fabric portion is small. Even our Damanganga facility 9.6 million meters is a pretty, pretty large mill what we have.

Moderator: Thank you. The next question is from the line Harish Shiyad, an individual investor. Please go ahead.

Harish Shiyad: Can you give broadly the break up between your cotton yarn and the polyester yarn, your product mix?

S.K. Khandelia: Roughly the number of spindles is about, you can say about we have about 40,000 spindles on cotton and…

Harish Shiyad: No, in terms of production compared to last year.

Bipeen Valame: We can send those numbers separately, broadly I can give you a break up. We are having around 420,000 spindles; I am giving a broad number. Out of the 35% to 40% spindles are on cotton, cotton mélange; rest of the spindle is on polyester. Of course, we keep a lot of flexibility in terms of (Multiple Speakers)

S.K. Khandelia: We are not in grey yarn business, because it is completely different.

Bipeen Valame: So, we have dying facility in all three locations.

Harish Shiyad: Now, based on that yesterday there was a tweet by U.S. Trump that they imposed the import duty on the Indian polyester yarn. So, how that will affect us?

S.K. Khandelia: No, that is different, that is filament yarn, not cotton yarn.

Harish Shiyad: Okay. One more industry specific question and impact on us. This, Alok Industry was under NCLT process and it is likely to be taken by Reliance, some process is pending. But once the Reliance takes over the Alok Industry definitely, if I understand, their production utilization will go up. So, how that will affect us and the market dynamism, because Reliance is supposed to be very aggressive in this field?

S.K. Khandelia: Their business is different; our business is different. Actually, if their business grows we will have the benefit of selling yarn to them, which we used to sell earlier.

Harish Shiyad: But they also sell the yarns, right, if I understand it correctly?

S.K. Khandelia: See, that is a captive consumption basically for their other utilization, specialty yarns we have been supplying to them as payment, we are supplying on credit. But if that again picks up, we will have the opportunity to sell to them.

Moderator: Thank you. The next question is from the line Nimesh Shah from Shah Investments. Please go ahead.

Nimesh Shah: I wanted to know that on the absolute number terms what is the impact on our EBITDA margin because of home textile?

Bipeen Valame: Percentage term, if you see our segment reports, EBITDA margin impact to can compute, because in yarn segment, the yarn segment overall the profitability has remained almost more or less at same level. So, the impact on consolidated basis you can take it Rs. 38 crores.

S.K. Khandelia: Roughly 1.5% you can say.

Nimesh Shah: Okay. Sir, there has been a heavy loss since…

S.K. Khandelia: Overall impact if you see, our turnover is about Rs. 2,500 crores and this segment has a gross of Rs. 35 crores. So, I think it will be about 1.5% overall, if you say the yarn segment, yarn segment will be higher by 1.5% roughly than the overall.

Nimesh Shah: Sir, what is the plan for turnaround strategy for home textile in next two to three years so that it becomes EBITDA positive?

Bipeen Valame: Okay. As I have already explained in my explanation, you see we have not been able to utilize our capacity fully. And that is the reason of the losses, otherwise we were in profit if you go through the four- or five-years accounts earlier, before this expansion we were in profits. So, as I mentioned with this expansion, our expansion coincided with the demonetization, then the rollout of GST, then withdrawal of the export incentive, then inverted duty structure. All these things have taken a big toll on the business, expanded capacity could not be fully utilized, whereas there has been much increased depreciation, finance cost, and the fixed expenses because we have hired a part of the staff and other things to run those plants and to market those things. So, there is a reason there is a loss. Now you see the turnaround, once the capacity… You see, these things are not going to remain forever, these things are going to be behind us in due course of time. This is one thing. So, once the capacity utilization improves there will be automatic improvement without doing anything else.

Second thing, we are increasing our product basket. As I mentioned, we are going to install digital printing, embroidery, wide width stent, wide width dying, there are so many things which we are going to do. So, to be able to supply a complete package, suppose if a customer wants so many things we should be able to supply the complete package. And that will improve the utilization of the plant, and that will also increase the sales of our existing products. So, that was another thing. So, because of that our capacity utilization will improve, our margins will improve, value addition will be there. So, this is the second thing. Third thing, the synergy between ASM and Damanganga Home Textiles will be there because initially the glitches were there now a core team has been formed between these two companies to leverage the benefit of each other. We will be selling here the ASM products, we will be supplying to ASM our Damanganga products. And another thing, we are in the process of developing a brand also, but it will take some time, because brand development is not, it takes years. So, we have decided to develop our brand over a period of year. So, once all this product offering is there, then the work on this branding will start. So, these are the things which are bound to turn around this.

Moderator: Thank you. As there are no further questions, may I now hand the conference over to Mr. S.K. Khandelia for his closing comments.

S.K. Khandelia: Thank you very much, once again, for participating in conference call and raising very interesting questions which has helped us to give the insight of our type of business, which is little different than the normally spinning mill business, and we could explain you the reasons of our Damanganga Home Textile losses which are not going to stay much longer.

So, in a nutshell I would say, these two and a half years if you see has been pretty difficult, though the difficulties were getting over to some extent. And in fourth quarter, after the government restored these duty drawback benefit to some extent, we are seeing improvements. And after these elections are over, new government is in place things get stabilized, we are hopeful that whatever consolidation you see in the efficiencies, and the inbuilt strength which we have, will help us to deliver better performance going forward. Thank you very much.

Moderator: Thank you. Ladies & gentlemen, on behalf of Sutlej Textiles and Industries Limited, that concludes today's conference. Thank you for joining us. And you may now disconnect your lines. Thank you.