sutlej
textiles and industries limited

SUTLEJ TEXTILES AND INDUSTRIES LIMITED
Lotus Corporate Park, 'E' Wing, 5th/6th Floor,
185/A, Graham Firth Compound, Near Jay Coach,
Goregaon (East), Mumbai - 400 063.
Phone : (022) 4219 8800/6122 8989 Fax : (022) 4219 8830
E-mail : info@rtmyarn.com Website : www.sutlejtextiles.com
CIN No. : L17124RJ2005PLC020927

STIL/ February 27, 2017

M/s. Bombay Stock Exchange Limited	**M/s. 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
Fax No. 022-22723121/719/22702037/39	Fax No. (022-2659 8237/38)
Scrip Code: 532782	**Scrip Code : SUTLEJTEX**

Dear Sir/Madam,

Subject: Transcript of Q3 & FY17 earnings conference call held on 13th February, 2017

Pursuant to the Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, kindly find enclosed a transcript of the Q3 & FY-17 Earnings Conference Call which was held on Monday, the 13th February 2017. The same is also available on the website of the Company i.e, www.sutlejtextiles.com.

The Earnings conference call held on 13th February, 2017, as per the Transcript enclosed incorporates mainly the highlights of financial results upto 31st December, 2016, 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

(D.R.Prabhu)
Company Secretary and Compliance Officer

SUTLEJ TEXTILES AND INDUSTRIES LTD. * Bhawanimandi (RAJ.)

"Sutlej Textiles and Industries Limited Q3 FY17 Earnings Conference Call"

February 13, 2017

MANAGEMENT: **MR. S. K. KHANDELIA – PRESIDENT & CEO**
MR. BIPEEN VALAME – WHOLE TIME DIRECTOR & CFO

Moderator: Ladies and gentlemen, good day and welcome to the Sutlej Textiles and Industries Limited Q3 FY17 Earnings Conference Call. Joining us on this call today are, Mr. S. K. Khandelia – President and CEO and Mr. Bipeen Valame – Whole Time Director and CFO. 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 telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Bipeen Valame, Whole Time Director and CFO, Sutlej Textiles and Industries. Thank you and over to you, sir.

Bipeen Valame: Thanks, and good morning, everyone. I welcome you all to the earnings conference call for Q3 FY17 results of the company. I have with me Shri. S. K. Khandelia Ji - President and CEO and I also have Stellar IR Advisors who are our Investor Relationship company. We have uploaded the investors presentation on stock exchanges and I hope you have got an opportunity to go through it.

The company reported total income of Rs.546 crores for Q3 FY17 as compared to Rs.559 crores in corresponding quarter for the last year. For the 9M FY17 period total income was reported at Rs. 1,675 crores, which is 8.3% year-on-year increase against Rs.1,546 crores in 9M FY16. Sales volume for yarn during 9M FY17 was 73,464 metric tonnes as compared to 69170 metric tonnes for the 9M FY16. Home textile production was at 5 million meters in 9M FY17 as compared to 4.3 million meters in 9M FY16. Export sales stood at Rs.437 crores as compared to Rs.407 crores in the corresponding period of the previous year. The export sales as a percentage of the overall sales are 26.07% for 9M FY17 as compared to 26.32% for 9M FY16. We export to more than 60 countries across the globe.

EBITDA for the quarter is around Rs.71 crores with a margin of 12.9%. For 9M FY17 period EBITDA was Rs.249 crores, 12.8% year-on-year growth we have shown. EBITDA margin for 9M FY17 was 14.9%. The company has reported net profit of Rs.27.7 crores for Q3 FY17 as compared to Rs. 28.1 crores in Q3 FY16. During 9M FY17 net profit was at Rs. 125 crores which grew by 35% year-on-year basis against Rs 92.6 crores in the corresponding period of previous year. EPS for 9M FY17 is at Rs.76.10 per share as against Rs 56.49 per share for 9M FY16. The financial results for Q3 and for 9M FY17 all are based on Ind-AS.

I would now request, Shri Khandeliaji to share the business outlook and industry scenario and then we can start the question & answer session. Thank you.

S. K. Khandelia: Thank you, Bipeen. Good morning, everybody and welcome you to this question-answer session. So first I will catch-up the some of the important events which have taken place. In November 2016, the government demonetized 86% of the currency in circulation. This resulted in squeezing the entire currency from the system and lot of restrictions on withdrawal of the money from the banks. In the short run in textiles, where trade and retail customers prefer to buy in cash have been severely affected. The domestic market has seen the sharp decline in demand due to demonetization in Q3 FY17 and consequently margins were also under pressure and another event is the increase in crude oil prices.

In the beginning of FY17 or at the end of the FY16, say January 16 the crude oil was below $30 US, which has now come up to $55-$56 US. Derivatives of crude oil is one of the basic raw materials in the polyester and due to increase in crude oil the polyester rates increased in last 3-4 months by about 15%. Cotton, which was expected to come down in the peak season of November-December and January, rather contrary to our expectations of lower rates in the season time, the rates have gone up mainly because farmers were not ready to sell by getting the cheque as they are used to get the cash and cash was not available, the arrival of cotton in the market was very slow and quantity was low. Due to which the rates increased, since farmers have been able to get the higher rates. Now they are not ready to sell at the lower rate and they are not bringing the materials whenever the rates goes down and so regularly there is some increase in the rates.

The rates have gone up to 43,000 in November and January this year which was about 38,000 in the beginning of the season and it was even lower last year. So, because of this heavy increase in raw material cost whether it is cotton, whether it is man-made fiber. So, because of these 2 things on the one side demand was less and on the other hand there was the increase in input cost and due to that the textile business was adversely affected. However, in our case the impact was very mild because we are mainly in value added segment and have diversified portfolio. Due to that we have been able to run our plant for the full capacity and utilization of 95% plus and the remaining goes for the regular maintenance and other things only. So the plant wise running to the full capacity, another thing that whatever we could produce, we could sell. Because we always get preference from the customers because of our consistent quality, product offerings and varieties and because of our services wide network, etc. So, the impact on us was very mild.

We are the biggest manufacturer of dyed yarn in the country. We are one-stop shop for all types of dyed yarn in spun segment. Whether it is from any fiber, any blend, any shade and from count from 6 to 60. So this gives us a lot of opportunity and lot of possibilities to sell our products then rather geographical spread is not only throughout India but throughout the globe and we are exporting to about 60 countries as Bipeen has mentioned. So, as far as we are concerned we never faced in normal course or even such type of problems, the selling problem, of course some impact was there and margins were under pressure because demand was low but the impact on us was very mild.

Then another two things, which have also happened and which may have impact on textile business going forward. One is the winning of Trump. So, it is since he has cancelled, US has withdrawn from the TPP agreement that is Trans Pacific Partnership. So, that is very beneficial for the industry in India, because India was not part of the TPP. So, other countries like Vietnam and other TPP countries would have got the duty-free access to USA, which they will not get now. So, they will be at par with India and due to that India will get benefitted. So, that is a positive thing for India. Another thing, the GST which is likely to come from July will have a positive impact on the textile industry as a whole.

We as per the discussions which we had so far with the ministry, government official, textile commissioner, we are of the opinion that GST implementation will be seamless throughout the textile value chain, irrespective of use of any fiber, brand or anything, whether it is spinning, weaving, garment or anything. So, that will be a good thing. Second thing that the duty collection overall will improve because cotton was exempt so far. So, duty collection overall was very less from the textile sector, due to that we hope and textile being major sector, we hope that we will get the merit rate and it may not exceed 12% according to us against the extended rate of 18% or something like that. So, GST will also be a game changer, it will improve the compliance and other things and so far increase in cotton yarn since cotton is not subject to any duty.

There will be some duty on cotton yarn on value addition but we will not the impacted because most of our yarn that is Mélange and cotton dyed blends those are going mainly for the production of export garments and that is duty neutral. So, whatever duty is paid they get back. So impact of that diversification will not be on us on the other hand we will have some benefit in synthetic section. So, this is another event, so far our company is concern we have many growth drivers, we are adding new capacity of cotton and cotton Mélange, dyed yarn of 35,000 spindles at our Bhawani Mandi plant. The entire plant has been setup and it is in the final stage of the trial run and hopefully the commercial production will start in March 2017, which is not far away.

Similarly, we had expanded our home textile capacity which was only 2.4 million, 3 years back to 9.6 million meters and that expansion will also have been placed by the end of the March 2017, though the production has been coming and the sale has been increasing, but the final position will be achieved in next 2 years and the turnover of this division will increase from Rs 100 crores to Rs 225 crores in next 2 years. Similarly, with the addition of Mélange capacity we will be have additional revenue of about Rs 200 - 225 crores and the margin is always better in Mélange and cotton blended specialty yarns. So, our overall percentage, our overall capacity after this expansion will go to around 415,000 and out of that we will have about 35% of the Mélange capacity as against about 28% at the present. Since the margins in Mélange are better, the overall increase in margin is expected to that extent. Secondly, the strength which we have been building since last few years has yet to unfold fully. Though it is continuously unfolding but it has yet to unfold fully.

Another thing, which I feel is a positive that after 2 years of drought, this year monsoon was very good and we were expecting very good demand include Q3 and Q4. But because of this demonetization that demand could not materialize as the buyer says no money to buy the fabrics and other things. I think, those holdup demand will come in due course of time in next financial year and next financial year should be a normal year and rather it may improve at the end of the say, third quarter, fourth quarter you should be better than the distant 3-4 quarters. Another thing is that we had purchase about 11 acres of land at Baddi, where our Birla textile mills is situated. Our idea is to grow that unit also and we are looking for the opportunities and we will expand it at the appropriate time.

We are increasing our capacity in a specialty Lycra twisted P/V yarn from 300 tonnes a year to 600 tonnes a year and may increase it further if required. We have further strengthened our development centers this year and those are able to produce value added yarns and are able to produce the new type of yarns, fancy yarns, etc. by these development centers and those help us to get better margin and sales. After 2 years as I mention the Home Textiles will have better margins. At present its margin are about 17% and going forward in next 2 years we are looking for a margin of about 22% on the increased volume. At present its sales is about Rs.100 crores, it will become Rs. 200 crores and those margins of 22% will be on Rs.200 crores. So, these are some of the positive things and another thing is that we are continuously generating cash surplus and therefore we are continuously looking for organic and inorganic growth opportunities.

But we do not add spindles only for the sake of increasing the capacity. We evaluate each and every option and we spend money on increasing assets only if we are convinced that it will generate sustainable returns for the shareholders and all other stake holders. So, we are evaluating each and everything and we have surplus cash and that is why we are hopeful that going forward the company will continue to grow. Another thing which I would like to point out that in last in FY12 to FY16 the CAGR growth in EBITDA is 15%. Net profit grew by CAGR of 45% in the same period. We have the strong return on equity, return on capital employed and consistently we are generating returns of about 20%. Our spindle capacity has increased from FY05 to FY17 that is CAGR of 8.5%. So, this shows we are continuously growing. Sales from FY12 to FY16 have grown with a CAGR of 9.6%. Gross block of course is growing. Then net worth has increased from Rs 276 crores at the end of FY12 to Rs 676 crores at the end of FY16 that is a growth of CAGR to high 25.1% and earnings per share is also grown from Rs. 19 FY12 to Rs. 88 in FY16, which is a CAGR of 45.7%.

We have very strong financial position. Our debt equity ratio is only 1.1 which means our total debts are only 1.1 times of our total equity and results. We have very robust interest coverage of 4.9 average rate of interest on term loan is going down because of our strong financial position. We are able to get competitive rates from the the market, we are able to get commercial paper at attractive rates and we also gets PCFC, export finance at a much lower rate because of our exports. Dividend for share is also been going up. So, that we, the company have been continuously going and due to the strength, which we have built over the years. I think, going forward we should have a sustainable and growing company. Thank you.

This is briefly what I had to say. We can now take the questions, thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question and answer session. Take the first question from the line of Dimple Kotak from SKS Capital. Please go ahead.

Dimple Kotak: Sir, the first question is that what is the outlook of cotton prices going ahead because there are lot of market facts that even in March the prices are going to soar up. So, what is your outlook sir?

S. K. Khandelia: I personally feel that the present rates of cotton are not likely to come down as I mention that, the farmers have been able to get good prices and whenever the prices try to go down because of the arrivals and other things they do not bring the cotton. So, the prices have been going up but from here the increase in the prices will also be limited at least up to March because then the arrivals will be there in sufficient quantity. Going forward after March it will depend on the international position and other things when the other information and other things come out and but I do not think that the rates of the cotton will go down and there should be a bias towards increase in the cotton rates.

Dimple Kotak: Sir, what quantum like it is already is risen up so much, sir …

S. K. Khandelia: No, it is not increased so much, last year the cotton has gone up to Rs.50,000 a candy. It is only Rs.43,500 at present. Last year even up to May 16, nobody expected that the cotton will rise to this extent. So, nobody knows that actually, how the cotton will behave going forward in the off season. But I am of the opinion in this off season also the cotton may go up to 48,000-50,000 may be in July, August something like that. Then it will depend on the monsoon and so many other things. Another thing is in India cotton is little bit costly as compared to international prices and so the exports, will take 25 lakh bales or 30 lakh bales already been exported and if you add 50 lakh bales of export, then the closing stock is not sufficient for 3 months. So carry over stock at the end of the season will be above 2 months only and that is a factor which will boost the prices.

Dimple Kotak: And Sir, if every 5% increase in the cotton prices, what is the general pressure on the EBITDA and on EPS?

S. K. Khandelia: In general, it will definitely have a pressure because ultimately everything is driven by demand and supply. The problem is that the many mills have been setup particularly in grey cotton yarn for taking benefit of China exports which has come down recently because their cotton policy of China had changed they are able to produce at the competitive rates. So, they are importing less quantity then what they used to import earlier. So, that has put pressure on the domestic market as well as on international market. But so far, we are concerned, it does not affect us too much. Number one, because normally we try to stock cotton in the season months, secondly ours is a value-added products where the competition is very less and we have in most of the times we are able to pass on the increase in raw material cost to the market. Thank you.

Dimple Kotak: And currently what is the inventory levels you have? for how many months ahead?

S. K. Khandelia: You see, in this period of time, we normally used to have 3 months of inventory but this year we are having only 2 months because the prices have risen too much in the season itself. So we were thinking that whether we should we stock, not because we were afraid that the market may not come down. So, now it is more than 75% re-monetization is already done. Cash is available in current account, there are no restrictions on withdrawals but still the prices are not coming down. Now we have started stocking and our present inventory is about overall for all the units taken together is about 2 months.

Dimple Kotak: Sir, I just missed on the part that what will be the additional capacity lead to the additional incremental revenue in margin growth, if you can just …

S. K. Khandelia: You are talking of Sutlej?

Dimple Kotak: Yes sir for Sutlej.

S. K. Khandelia: The 35,000 spindles which we are adding will increase to revenue of 225 crores and another 100 crores will come from the home textile division and this will take 1 to 2 years.

Dimple Kotak: And the margins in say for home textiles will be around 22%.

S. K. Khandelia: From 17% to 22% in 2 years' time. Because we have setup the capacity, we are augmenting our designing and marketing capabilities it takes little time because these are the creative products. So, it takes little time to get the product to stabilize and increase the marketing to more niche products. So, from the average products we are trying to move to the niche products and that will improve our margins definitely. We have already started that.

Dimple Kotak: Sir, just I can chip in the last question, what is the investment in the Baddi land, the land at Baddi and when are you planning the expansion for that at what …

S. K. Khandelia: Baddi land we have brought at Rs.13 crores, because it was a land of some industry and some boundary wall and other infrastructure was also there and we are evaluating various options. But you see the textile is doing well in general, so we are trying to find out some value-added products that we are already under study. You see at this point of time I will not be able to give the exact time frame for expansion, it may be next year or it may be not be even in next 2 years.

Moderator: Thank you. We take the next question from the line of Manish Oswal from Nirmal Bang. Please go ahead.

Manish Oswal: My question on 1st on the yarn segment in the quarter 3 and the 9 month FY17, what was the total yarn volume and can you break down into Mélange and the normal, I mean commoditized yarn?

S. K. Khandelia: Yes we can. Bipeen would you like to reply? Ok I will answer

S.K. Khandelia: The volume for the 9 month and for 3rd quarter, the volume of yarn was about 23,000 metric tons and in 9 months the total volume this year was 74,000 metric tons and out of that for 9 months the volume of Mélange is about 13,500 and for 3 months it is about 4500 tons. So, normally we produce above 1500 tons of Mélange yarn every month and this will increase by 600 tons per month, after the new capacity comes from commercial production sometime in March.

Manish Oswal: March 17.

S. K. Khandelia: Yes. March 17, it is already planned; already ready, final trial run is going on.

Manish Oswal: Secondly Sir Home Textile side what we are doing and how do you see the overall business size over the next couple of years?

S. K. Khandelia: You see in Home Textile is a big segment and there are many things. One is the sheeting and racks and so towels, there are so many things. We are in curtains and upholstery. Curtains and upholstery the projected growth is about 8% to 10%. So, because this is a niche segment and since the purchasing power with people is increasing even in India and outside India, India is getting competitive. So, going forward the growth rate projected to grow at 10% in curtains and upholstery which is the highest in the segment of the Home Textile.

Manish Oswal: And Mélange yarn what is the realization for the quarter 3 and 9 month?

S. K. Khandelia: See, normally Mélange yarn realization exact figure I will not be able to give you right now. But its rate is about Rs.100 per kg higher normally than average rate of the grey cotton yarn of the same count depending upon various blends, count, etc. There is figure available?

Bipeen Valame: Yes.

S. K. Khandelia: It is between Rs.275 to Rs.295 per kg as against Rs.180-190 per kg in case of other yarns.

Manish Oswal: And lastly on the CAPEX side for the 9 month how much we already spent and what yet to be spent in quarter 4?

S. K. Khandelia: Our Mélange project is for Rs.258 crores and out of that we have already spent Rs.228 cores and Rs.15 crores will be further spent by March. So, it will be total Rs.243 crores and another Rs.15 crores for the balancing and other things will be in next year. In Damanganga home textiles were the project cost was Rs.81.50 crores, we have already spent up to Rs.63 cores up to December and another Rs.13 crores are being spent from January to March and there will be saving of around Rs.6 crores. And in case of our modernization and other projects we have spent around Rs.49 crores this year for modernization, debottlenecking, etc. and another Rs.35 crores will be spent in January, February, and March.

Manish Oswal: And last question from my side sir, could you give some qualitative difference in the product called compact yarn versus Mélange yarn. So, in terms of realization, secondly the application of product how it is different or are we producing that product or not? That is it.

S. K. Khandelia: You see, so far compact yarn is concerned; it is mainly used in weaving. In hosiery it is normally not required, very rarely. So, though we have some of the machines that are able to produce compact yarn also if anybody asks for it, but in hosiery people do not ply for compact yarn. Now some demand has started coming, little bit but for that we already have the capacity. So, the non-compact yarn is used mainly for hosiery and whereas for weaving compact yarn is prefer.

Moderator: Thank you. We take the next question from the line of Saket Kapoor from Kapoor and Company. Please go ahead.

Saket Kapoor: Sir, the last speaker was speaking about the difference between the realization of compact yarn and Mélange yarn, could you specify in Rupee term how much the difference is?

S. K. Khandelia: You see in compact yarn earlier it is a demand supply issue, but normally the difference in compact yarn and normal yarn is Rs.8 to Rs.10 per kg maximum. But sometimes it is lower but say basic thing is salability, say in case of weaving if you will try to sell the non-compact yarn perhaps it may not be preferred so, the sale may be difficult. Whereas in case of hosiery yarn people prefer non-compact yarn, so they do not give any extra rate for the compact yarn if he wants to sell compact yarn for the hosiery application.

Saket Kapoor: Now, coming to the part of your P&L, where is that we found, we find that the inventory build-up of around 22.5% growth how the change in inventory going through and what is the impact going forward?

S. K. Khandelia: Whatever inventory there is all sold out. The problem was that the delivery of sold material was little slow because of this non-availability of cash with the customers and until and unless the cash comes back from the retail sector to the manufactures of the fabric they are not able to lift the material of the yarn. So, the entire material is sold out and by March I hope that the inventory will be normal.

Saket Kapoor: So, what would be the impact on the P&L then sir, out of the inventory?

S. K. Khandelia: See the inventories always valued at cost or market rate whichever is lower. So, there is some hidden profit in the sense that whenever it is sold, whatever the difference in the cost and sale price is there it will convert to the profit. So, there will be some improvement in margins on liquidation of this inventory.

Saket Kapoor: Yes sir that was I was asking if it was on the billing part that got impacted and the billing would be done we would have been....

S. K. Khandelia: Our inventory increased in Q3 by Rs.23crores and say whenever it is sold I think it may result into additional profit of Rs.5 crores to Rs.6 crores maximum.

Saket Kapoor: Sir, the home textile segment we have posted revenue of around 23.5 crores, whereas the profit of a very small portion of every 1.30 crores lakh or something around in that vicinity. How do we explain the margins?

S. K. Khandelia: Capitalization is continuously going there in that unit. Capitalization is taking place continuously. So, the impact of depreciation is also there.

Saket Kapoor: So, out of the total depreciation how much is attributed to the….

S. K. Khandelia: I said that is, if the revenue is Rs.23 crores we straight away go to EBITDA to 17%, right and then you reduced the depreciation. So, even if 17% on Rs.23 crores it will be about 3.5 crores something. So, something is depreciation, something is the inventory built up there also. So, that is the reason that the net profit appears little less.

Saket Kapoor: Right now we are a very small player in the home textile segment?

S. K. Khandelia: No, you see, from 2.4 million meters to 9.6 meters, home textile again I said it is a different segment. Say, if you compare your sheeting it cannot be compared with the sheeting, it has to be compared with the curtains and upholstery business only and in curtain and upholstery business capacity of 9.6 million meters is not a very small capacity. It is a big capacity and at present we are able to manufacture only 5 million meters. So, we have to actually increase our utilization once all the looms are in operational. Our capacity utilization will go up. So, the curtains and upholstery 9.6 million meter is a very good capacity.

Saket Kapoor: Sir, last question on my part is, if we take the quarter-on-quarter comparison of our number we have posted revenue of around 549 for the September quarter and we have posted revenue of 529 for the December quarter. And our profitability has moved by around 20 crores Q3, if we take a totality. How will you explain that?

S. K. Khandelia: Last quarter some benefit was there of the cotton in stock. So, the profitability was better and then secondly margins were under pressure by about 2% in this quarter because of the demonetization.

Saket Kapoor: So, that is also the likelihood for the next quarter also as the Chairman has commented in his remarks.

S. K. Khandelia: The next quarter is because the effect of demonetization is still continuing of course in a comparatively lesser degree but quarter 4 likely to be like quarter 3 only and of course the impact of demonization is transient and we hope that FY17/18 will be normal year but Q4 still effect is there because still the people have not got the full money which they want to utilize. Let’s say the farmers could not get the money out of their crop because they want cash and the buyers do not have cash they can give cheque, that of farmers do not want cheque and even if they take the cheque they were not able to get the money earlier. So, the purchasing power and spending power was not with them. But now the government is already announced that total controls will be lifted within March itself. So, once the currency and the liquidity is available in the market definitely the demand is going to improve. So, Q4 will be like the Q3 that is what we expect as of now

Saket Kapoor: But we can assume flat turnover for next quarter as per you comment?

S. K. Khandelia: Yes, we think that the more or less it will be like Q3 also.

Saket Kapoor: Sir, any points that you would like to comment while there was no con call for the second quarter for the …?

S. K. Khandelia: Yes. Our earlier CFO has left and the new CFO has joined only in October, so that was only few days before the quarterly result was declared. That is why we could not hold the con call last quarter. Otherwise we will be holding it every quarter.

Moderator: Thank you. We take the next question from the line of Arjun Sengar from Reliance Mutual Fund. Please go ahead.

Arjun Sengar: Sir, can you give me a rough breakup of your raw material basket in terms of the different fibers?

S. K. Khandelia: Readily it is not with me but I will ask my CFO to get in touch with you and will send it to you.

Arjun Sengar: Is the most of it cotton based your raw material basket?

S. K. Khandelia: No. Our major raw material is synthetic and cotton used only for Mélange. So, our Mélange production as I mentioned about 1500 tons every month and whereas our total production is about 250 tons per day, so our major is raw material is synthetic.

Arjun Sengar: And within that it would be polyester?

S. K. Khandelia: Polyester, viscose, bamboo and modal, all these type of raw materials we used. So, major is polyester, then viscose, and then comes acrylic and modal, bamboo and all those fibers. Then we also use linen, so we use all types of raw material but major is polyester.

Arjun Sengar: And you said during this quarter polyester prices went of 15%?

S. K. Khandelia: Yes. Not in this quarter from October-December quarter. It is started increasing from November and it increased up to now. So, in last 3-4 months it increased by 15%. It is started increasing from November, once the crude oil is started increasing.

Arjun Sengar: So, this is likely to impact your profitability like in the coming quarters, is it?

S. K. Khandelia: Arjun, there is always a lag in the increase in the raw material price and increase in the sale price. So, going forward it will be fully-absorbed and I think the margin should come back to the normal level which is around 15%-16% in our case.

Arjun Sengar: And typically how many month of inventory do you have in raw material, synthetic side?

S. K. Khandelia: Normally we do not, when the rates start going up we normally have 45 days otherwise it is 25 days.

Moderator: Thank you. We take the next question from the line of Pravin Sharma, who is an individual investor. Please go ahead.

Pravin Sharma: Sir, just wanted to know how much yarn are we selling to US in terms of yarn or Mélange yarn or commodity yarn and home textiles is what are we selling anything?

S. K. Khandelia: You are talking USA?

Pravin Sharma: Yes, America.

S. K. Khandelia: Yes. You see, we are in B2B segment we are not in consumer segment. So, in America a lot of garments made out of our yarn, the majority of the yarn which we are selling to the exporter of garments that is mainly going to USA and Europe only. Our Home Textile has started this year exporting to the US and it is very less at this point of time. Directly we exports some yarn to USA and it is about 2% to 3% of our total export, because there are not any weaving mill or something or hosiery mills. Of course, in Latin American countries it does go from their again it is converted and again goes to USA.

Pravin Sharma: Then sir, how much in the typical duty for Indian yarn in America?

S. K. Khandelia: I think it is about 8% to 9%.

Pravin Sharma: Because of this America getting themselves withdrawn from TPP?

S. K. Khandelia: Our duty will continue to be the same. Only thing is that the Vietnam which would have been exported the garment and any other thing or other countries of the TPP, 12 Nation part would have exported their duty free. So, export of our garments would have suffered ultimately America imports mainly garment**.** So, our export of garment would have taken a hit and that will not take any hit now. That is the benefit which we are going to get. So, once their garment will continue to be exported there and it will increase also because government has given some incentives for garment sector Rs.6000 crores package. So, with that package our garment export will increase and that our consumption of yarn will increase of the value-added qualities.

Pravin Sharma: And sir, on this demonetization, do we see this demand which is taking a dip now majorly in November, December and now you are saying that it is slightly trying to revive, do you think this is our demand postponement or this demand which has not happened is actually destroyed is this a demand destruction?

S. K. Khandelia: A part of it is destroyed and part of it is postponed. Even if the urgent things people could not buy then that is actually postponed. But sometimes people whatever they say okay, 3 months say winter quality garment. Yarns which are used for winter quality garments was badly affected. So, that demand is destroyed, so that demand has not been posted but of course next year something out of that may come but you can say the partly it is destroyed partly it is postponed.

Pravin Sharma: Sir, how much is the typical time lag when the prices increase like polyester has increased in from November till now by 15% typically based on our agreements and arrangements with our buyers, how much lag is there in terms….

S. K. Khandelia: Whenever the price rise we always try to increase it immediately but again it is the cushion of demand and supply. How is the demand in the market, if the demand is there the entire amount can be passed on immediately there is no lag at all. Today price of polyester is increase from tomorrow whatever material I will sell it will have that impact. We do not have any long-term contract anytime. It is the regular sales, so it is not like that we have sold at the earlier rates and prices has gone up it is going to hit us, no. Our sales are regular everyday there is some sale and normally out total advance sale is not more than 30 to 45 days. Normally maximum 45 days. So, if the demand is good, the price is increased immediately but if the demand is not moved and there is competition and everybody is trying to sell the material without increasing the price then it takes time. Otherwise, normally it takes 2 months' maximum in normal course.

Pravin Sharma: Sir, last question with Polyester price do you think it has stabilized or has moved supply is come in and prices stabilized?

S. K. Khandelia: So, I think it is stabilized because the crude is stabilized at around $55 US. So, now there are two parts. If the opaque cut on the crude oil persist somebody expect then it if the crude goes up to say $60-$65 then there will be some increase. If that cut is not maintained and there is some American oil comes in the market and if the crude oil prices are restricted at this level, then the prices will remain stabilized. It depends on the crude prices.

Moderator: Thank you. We take the next question from the line of Apurva Mehta from KSA Shares. Please go ahead.

Apurva Mehta: Just wanted to know the CAPEX program for next 2-3 years because this CAPEX is already you have done. So, what will your program be for next 2-3 years down the line?

S. K. Khandelia: We as of now we do not have any major CAPEX program except routine modernization and debottlenecking which normally takes about 50 crores to 75 crores in a year, which we do each and every year to keep our plant technologically advanced and fully modern. So, that is our normal thing and any new project at this point of time is not on the board but I hope something some new projects should conceive and finalized going forward that is what I feel but at this point of time I cannot give exactly you that details.

Apurva Mehta: But normally a project would take how many years around 18 months to 24 months' time to …?

S. K. Khandelia: Maximum 18 months. Otherwise it will be say 12 months to 18 months but normally it takes 15-18 months not 24 months.

Apurva Mehta: And sir, can you throw some light on the yarn demand because will when we have heard that the yarn demand is very tepid today it is very no demand in the market?

S. K. Khandelia: There are various types of yarns. If we talk of the grey cotton yarn again I tell you one thing first. In India, we have around 50 million odd spindles. Out of that only 1 million spindles or maximum 2 million spindles are on different type of product including synthetic yarn. Remaining spindles are only on grey cotton yarn and related to that. So, there is the maximum pressure and China is not importing, the demand is very tepid and since there was no local consumption much because of the demonetization, so, there is a pressure on the grey cotton yarn. In case of value-added yarns because of demonetization the sales are impacted but very less as compared to other yarns. So, there the problem is not that much.

Apurva Mehta: Sir, can you throw some light on exports. How are the exports going on because 25% to 30% of our sales are export?

S. K. Khandelia: Yes, we normally export our 25% and there is always a delta of 5% to 10% minus or plus side depending upon the market condition. We can export even 35% there is no problem the only thing is we keep on comparing the margins in domestic market and export markets. So, in last 2-3 months when the demand was less here we increased our export to some extent there is always a possibility but since the raw material rates increased say about 15%, so far, we have been able to pass on only 10%. Because there is a pressure on export in synthetic and other yarns also since there was no sales here everybody tried to sell in export. So, there was also an excess supply than the demand and the buyers took the benefit thereof otherwise the entire 15% could have been absorbed by now.

Apurva Mehta: So, going forward what is your judgment about price stabilizing and the demand restoring? Can you …?

S. K. Khandelia: I think from April 2017 the things should start improving and as we go forward, I personally is very optimistic.

Apurva Mehta: And can we say there will be a spurt in demand because the inventories are very low currently everywhere, so people have already liquidated so much that demand is less, so the inventory levels are also gone down.

S. K. Khandelia: That may happen but not what we can say spurt, it may be not be like exactly spurt but definitely there can be higher demand since the pipeline is empty.

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

Saket Kapoor: Just coming to the point of expansion we are coming up with 35000 spindles new capacity in March, so for a quarterly run rate sir, what should be the incremental revenues will be booking out of it?

S. K. Khandelia: This quarter because it is just starting. This March only we have been starting sometime may be say around 15th March. So, in this month about Rs.10 crores revenue will come additional revenue.

Saket Kapoor: And what will be incremental depreciations sir, because we are doing it before March we will be getting the benefit?

S. K. Khandelia: Depreciation so far there are two types. One is the income tax one is the book size as you said. In the books, there will be only one month depreciation and that will be not very high.

Saket Kapoor: Sir, now coming to sir what is our effective tax rates sir?

S. K. Khandelia: We are still in the MAT because of the new expansion with the benefit which you are getting of the additional depreciation. Higher depreciation in income tax and carry forward MAT. So, for the next three years we are likely to remain in MAT.

Saket Kapoor: In the MAT only?

S. K. Khandelia: It is around 20% tax rate.

Saket Kapoor: And sir coming to the one more basic question is the shares which are traded in the Stock Exchanges are very illiquid, so even a few thousand shares transaction can just change the price every abruptly. So, is the management conscious about this fact that even buying or selling of 5000-10,000 shares, it can alter the entire phase of which and create or destruct value at the single go? So, what is there on the mind of the management to take care of it?

S. K. Khandelia: I think we are aware of this issue but we have noticed that despite low liquidity the volumes size increased in last 2-3 years and the type of difference as you mention used to be there earlier has come down to some extent and I think with the improvement in volumes even with the liquidity which is in the market, I think that these type of things should come down but we are aware of this issue, we will take a call at appropriate time whatever is possible.

Saket Kapoor: Sir very small suggestion, since we are not altering any equity structure, so whatever availability is there in the market varying the promoter that is only going to change and every time. So, if we go through any stocks pledged or any other measures that would improve the liquidity and it will help in better price discovery whether it is on the plus side or the minus side but it should be ample liquidity for investor to take a judgment and at proper time sir, this is what my suggestion.

S. K. Khandelia: I have noted your suggestion and will definitely discuss with our board.

Moderator: Thank you. We take the next question from the line of Ajay Kapadia from Motilal Oswal. Please go ahead.

Ajay Kapadia: Sir, so next year we will be able to keep our capacity utilization at same levels as this year with the new capacity in place?

S. K. Khandelia: I think there should not be any problem.

Ajay Kapadia: We will be able to sell what we produce.

S. K. Khandelia: We have been consistently this capacity utilization in case of supply almost always around 95% and with the new capacity coming in, whenever we had started new capacity even at this point of time even the trial run the capacity is being utilized fully, but the only thing is that the value-added product which it has been setup so it may take 6 to 8 months' time to stabilize that value-added products to manufacture in that to stabilize the market more traditional volume.

Ajay Kapadia: So that our impact might be in the second half of the year rather than the first half?

S. K. Khandelia: The impact of new capacity in the margin improvement will start little bit in first quarter but as you correctly said it is hoped to be in second quarter only.

Ajay Kapadia: And sir, as you explained earlier the home textile division will improve our margin and our margin at home textile will reach (+20) in coming couple of years. So, the overall margin of Sutlej Textile will be at least around 15% if not more?

S. K. Khandelia: Yes. It should be more rather. 15% on an average in normally are we are still achieving. You see even 9 months' margin for this year EBITDA margin is 14.88%. So that is why it should improve going forward.

Ajay Kapadia: Next year should not be a problem.

S. K. Khandelia: That's why one percentage improvement should happen in normal course.

Moderator: Thank you. Well that was the last question. I now hand the floor over to Mr. S. K. Khandelia for his closing comments.

S. K. Khandelia: Thank you so much for joining for the question-answer session. As I have already explained that I am very bullish on the growth of the company because the simple reason is that we are generating cash surplus year after year and naturally we would like it to deploy again fully for the benefit of the shareholders and other stakeholders and we have been doing so in last 4-5 years as we have seen that the growth which has taken place. So, we are looking for organic as well as inorganic growth and at the right time this will take up and since our product portfolio is very much diversified irrespective of in such bad times the surplus has been able to sell, produce, run the full capacity and that shows the resilience of the company. Thank you.

Moderator: Thank you. On behalf of Sutlej Textiles and Industries Limited that concludes this conference. Thank you for joining, you may now disconnect your lines.