

10th November, 2023

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Dear Sirs / Madam,

Subject: Transcript of Q2 & H1 FY24 Earnings Conference Call

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 half year ended 30th September, 2023 which was held on Tuesday, 07th November, 2023. The same is also available on the website of the Company i.e. www.sutlejtextiles.com.

The conference call held on 07th November, 2023, as per the Transcript enclosed incorporates mainly the highlights of financial results upto 30th September, 2023, 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.

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

Manoj Contractor
Company Secretary and Compliance Officer



“Sutlej Textiles and Industries Limited Q2 &H1 FY24
Conference Call”

November 07, 2023



**MANAGEMENT: MR. S. K. KHANDELIA – ADVISOR, SUTLEJ TEXTILES
AND INDUSTRIES LIMITED
MR. RAJIB MUKHOPADHYAY – WHOLE TIME
DIRECTOR AND CFO, SUTLEJ TEXTILES AND
INDUSTRIES LIMITED**

Moderator: Ladies and Gentlemen, Good day and welcome to Sutlej Textiles and Industries Limited Q2 & H1 FY24 Conference Call.

From the management panel we have with us today Mr. S K Khandelia – Advisor Sutlej Textiles and Industries Limited and Mr. Rajib Mukhopadhyay – 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 the operator by pressing ‘*’ then ‘0’ on your touchtone phone. Please note that the conference is being recorded.

I now hand the conference over to Mr. Rajib Mukhopadhyay. Thank you and over to you, sir.

Rajib Mukhopadhyay: Thank you. Good afternoon, everyone and welcome to the Earning Conference Call for Sutlej Textiles and Industries Limited for the 2nd Quarter and Half Year of FY24. I trust that you are all doing well. With me on the call today is Mr. S K Khandelia, who is at the helm of affairs of day-to-day matters of Sutlej Textiles and Industries Limited and Stellar IR Advisors, our Investor Relationship team. We have already uploaded the Investor Presentation and I hope everyone has an opportunity to go through the same.

Let me start the call by giving you the financial highlights of the Quarter and Half Year gone by after which Khandelia ji will give you in on the Business Highlights as well as the industry highlights.

For quarter Q2 FY24 our consolidated total income came at 739 crores which was 4% higher than Q1 FY24, which was mainly on account of liquidation of finished goods inventory.

Due to sluggish demand, our margin impacted in Q2 sales, volume increased by around 12%, but at the same time realization has dropped by around 8% on quarter-to-quarter basis. So, the increase in net sales is only 4% while raw material average consumption price has dropped by around 1% only. Gross profits stood at 235 crores, which was lower by 17% on a quarter-on-quarter basis.

The gross margin for the quarter stood at 32%, which is lower on a quarter-on-quarter basis. EBITDA for the quarter was minus 30 crores as against 5 crores positive in Q1 FY24. For half year ended H1 FY24 our consolidated total income stood at 1,450 crores, gross margin came at 36%. EBITDA stood at minus 25 crores and PAT came in as 80 crores minus.

As we have been updating you our efforts at strengthening our balance sheet still continues. During the quarter, we have reduced our debt by 129 crores to 815 crores as against 944 crores as on 30th June. Our current debt-to-equity ratio continued to stay below 1 and currently stands at 0.80.

During the quarter, we reduced our working capital level by 209 crores and reduced the fund blockage. Those were my initial opening remarks. I will now request Khandelia ji to please take it forward with the business and industry updates.

S K Khandelia:

Thank you, Rajib, and thank you all for joining us today on this conference call. As we have been advising on our previous calls, the quarter gone by, and this year has been challenging for the textile industry in general and the spinning sector in particular. Most developed markets were already seeing a significant reduction in discretionary spending on account of high inflation and recessionary pressures.

Unfortunately, not only does this trend continue, but with the Israel-Hamas conflict, we anticipate that the pain will carry on for the remainder of the fiscal. Due to slowdown in exports, capacities got diverted to the domestic market, leading to oversupply in domestic market. Consequently, the domestic margins have also come into huge pressure. In our case, we export about 40% of our products and most of the developed countries as I mentioned has seen the depressed demand that the margins in these products were impacted adversely.

Similarly, in domestic market as I said that because overall countries exports were down, there was pressure in domestic market and demand was also impacted because of inflationary pressure in India also and the consumer discretionary spending was reduced. In our case, we have been supplying premium quality yarns that is dyed yarns in domestic market as well as in export markets like synthetic and blended dyed yarns, cotton and cotton blended mélange yarns and this is the most affected segment because it's a premium segment.

Secondly, our specialty mélanges were going to garment exporters, but as the garment exports has fallen in 5 months of this fiscal year by 22.6% that impacted the demand and margins in our specialty mélange yarn and we were forced to run Gray yarns, which we are not very competitive because of the different set of mills are there.

Quarter 2 of financial year 24 has been yet another quarter. There's a subdued demand for the spinning industry. Unfortunately, that I have already mentioned and then as Rajib mentioned, we were carrying excess inventory at the end of first quarter and that we have reduced significantly of the finished goods and the work in process and if I remember correctly, it was about 110 crores and since the markets were falling, we suffered heavy losses in that.

And now I think that this will continue to remain challenging and market conditions are likely to remain subdued, at least for the two quarters from now and once things gets clear and visibility is there, things should improve. Thank you. Now anyone can ask questions.

Moderator:

Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Rahul Sony from ICICI Bank Limited. Please go ahead.

- Rahul Sony:** Sir, can you briefly explain the present situation like utilization level at the industry level and also at the company level and how the yarn spread is moving?
- S K Khandelia:** You see as the position stands now, there is no visibility because Israel - Hamas war has further added a dimension to the already depressed demand. So, there is complete uncertainty in the marketplace and demand is quite depressed. And India, as I mentioned, because of the inflationary pressure though it is stable at present.
- The purchasing power of the people is impacted, discretionary spends are not getting reduced to the orders. People like something else and they don't have that much money for that. So, visibility is not there. So, it is very difficult to say when the situation is likely to improve, but as I mentioned that we see that for this quarter as well as for the next quarter, things are going to be very challenging.
- Rahul Sony:** And what was our utilization level?
- S K Khandelia:** Excuse me, I could not get you...
- Rahul Sony:** Our utilization...
- S K Khandelia:** Our utilization was 84% effectively and capacity utilization was 94%. So, normally we use 100% of our capacity and utilization normally remains 95%, but this time, our capacity utilization was lower by 6%.
- Rahul Sony:** And our overall realization you said dropped to 4% quarter-on-quarter?
- S K Khandelia:** No, overall realization depends upon different varieties and overall realization if I talk in the yarn segment it is I think dropped overall realization of yarn segment dropped by 8% on quarter to quarter.
- Rahul Sony:** So, in segment wise, what is the breakup between manmade yarn and cotton yarn?
- S K Khandelia:** Our main segment is spinning so there the overall realization dropped by 8% and then there are different types of yarns. So, somewhere it may be 15% somewhere it may be 5%. So, on average it was 8% and another segment where we are in the home textile. So, it is a small segment where the realizations have improved, and their working has also improved and that has shown good traction.
- Rahul Sony:** And sir if I ask about the breakup between cotton yarn and manmade yarn what is the correct breakup?
- S K Khandelia:** Not readily available with me, we will arrange to send you.
- Moderator:** Thank you. The next question is from the line of Dhiraj an Individual Investor. Please go ahead.

- Dhiraj:** Sir, you have a unique position of being part of the B2B as well as B2C space?
- S K Khandelia:** Yes.
- Dhiraj:** So, could you explain me whether you are seeing any improvement because on all con-calls where there are consumer facing industries, whether it is domestic or international there seems to be a little bit of pain that is going on like you mentioned in your speech as well, but since you're part of the B2B as well I'm sure you will have some advanced understanding of what the orders will look like for the next quarter or next few quarters. So, any light that you would like to throw on that?
- S K Khandelia:** This is so far B2B segment is concerned we find that the downstream industry, many of that is getting close to maybe 20%, 25%, say for example, whether it is Burhanpur, Bhiwandi, Ichalkaranji, Bhilwara everywhere looms are closed 20% to 25% and people are not finding a way out to dispose-off the inventories, which they have also built up.
- So, it's a challenging time and until unless the demand from exports comes in because India as the overall net exporting about say about 35 to 40 billion of textile products. So, wherever it is there, yarn is required. So, until and unless that export improves, say in the developed country, demand improved in the pressure on domestic is not reduce.
- Till then, I don't think in India even domestic market for B2B segment or B2C segment, wherever we are is going to improve. So, those times are challenging as I mentioned to two quarters, I don't think there is going to be any visibility or something after that let's see how does the things move.
- Dhiraj:** Sir and if I may just ask one more question. Do you think the festive season will improve the sentiments?
- S K Khandelia:** Basically, you see if the festival season is almost over. So, far in our case it ends much earlier because then they just converted into cloth, but the cloth movement has also been very slow this year and the actual retail offtake say from the retailers in other places that is also very slow as compared to normal times. So, the festival season has not given the desired result, which the industry hoped for. So, that is we can say that it was a lackluster and very poor.
- Moderator:** Thank you. The next question is from the line of Amit Agarwal an Individual Investor. Please go ahead.
- Amit Agarwal:** My question, we had a plan of 900 crore expansion because of the market condition, are you delaying the project or how is it going because I can't see any investments being made for last 6 months in our balance sheet?

- S K Khandeli:** So, far, the project is concerned, we have kept it on the hold, and we have not spent any money except purchasing the land and that is in our possession, and we are still reevaluating the project because the market conditions visibility is not there. So, we have kept the project for the time being on the hold and we will get back to you in the next quarter or something like that how we 'are going ahead with that.
- Amit Agarwal:** And related to the same thing, now your investor presentation shows that you have 85% of the capacity. Our yarn sales have gone up. So, does that mean we are selling the yarn, which has been produced earlier?
- S K Khandelia:** So, 85% capacity as I said to you, normally we used to utilize our 100% capacity and effective utilization 95% used to be there, 5% is for maintenance changes and those type of things. This time we have utilized our capacity to 94% and the effective utilization has been 84% because there were some interruptions, even whatever capacities we were running in between because of the shortage of orders in something.
- So, effective utilization was 84% as against 95% which we normally used to have and that situation is still continuing by and large, but then sometimes some capacity increases, sometimes decreases, but by and large is the same situation is continuing at this point of time.
- Amit Agarwal:** Did we have any damage to the plants because of the Himachal rains because our plants are there in Himachal too?
- S K Khandelia:** At this point of time, we don't have any specific plans because at this time the visibility is not there for anything.
- Management:** Sir, he is saying was there any damage to the plant because of Himachal?
- S K Khandelia:** No, not at all, no damage to any of the plants.
- Amit Agarwal:** And did we have any production loss because of those rains?
- S K Khandelia:** No, there was not any flood or anything in our plants. There has not been any damage or interruption because of the floods and rains.
- Amit Agarwal:** And how this quarter is doing compared to the last quarter, the one completed is the same or slight uptake from the last quarter?
- S K Khandelia:** I think as I mentioned that in the 2nd Quarter, we have booked a lot of stock losses because we were carrying excess inventory. So, those types of losses may not be there to that extent. So, this quarter looks better at this point of time as compared to the last quarter.
- Moderator:** Thank you. The next question is from the line of Akshata Anchan an Individual Investor. Please go ahead.

Akshata Anchan: So, I have couple of questions first on the home textile business. Sir, can you give us an update on the progress that we are making in the home textile business and also like what is your expected timeline for the breakeven for home textile?

S K Khandelia: No, home textile is already shown I will start with the second first. Home Textile is already positive EBITDA they are showing now and there is continuous improvement there, home textile and our average rates have improved, production has gone up, marketing sales have gone up. So, home textile is showing good traction our Indian business is concerned. Then we have one ASM, another subsidiary company of ours, it is at a standstill because in America demand is a little less. So, that is more or less same and other so far, our spinning business is concerned.

So, as I mentioned that this quarter is likely to be better than the previous quarter because last quarter, we booked lot of losses and capacity utilization is more or less equal to last quarter so far and I don't think by the end of this quarter capacity utilization is going to be better, but you never know.

Some people say after Diwali and the marriage season will come, Christmas festival comes and those type of demand may come from export and if the export demand picks up, the pressure on domestic reduces we will do much better because we are in premium segment like dyed yarns and other things the if the garment exporter does well, our specialty mélanges. We are forced to run Grey yarn at this point of time and which we were running last quarter also. So, there we don't get much margin. So, this is how things are there and uncertainty is there, visibility is not there, but and it looks to me that this quarter is going to be definitely better as compared to previous quarter.

Akshata Anchan: So, you mentioned on the overall like utilization is more or less equal to what it was last quarter, am I correct?

S K Khandelia: Yes. As I said in my earlier to some other question, normally we were utilizing our 100% capacity and effective utilization used to be 95%, 5% used to be for maintenance over and all those types of things. This year in this quarter 2nd Quarter we utilized 94% of our capacity, 6% had to be stopped from time to time because of the lack of the orders or very uneconomic orders and at least 94% our effective utilization by 84% as against to 95% normally.

So, this is the position which is still continuing as we are speaking. If the demand picks up say after 15th November after Diwali, it may improve to some extent otherwise it is not likely to go down from here onwards.

Moderator: Thank you. The next question is from the line of Rahul Sony from ICICI Bank Limited. Please go ahead.

Rahul Sony: In the yarn sales volume we have registered like 18% growth on YoY percentage.

- S K Khandelia:** Yes.
- Rahul Sony:** So, if you see the domestic exports and sales domestic and exports break up it has been like 42% this time and also last year, but also, we are saying that the export demand is low and domestic demand is also low, but this is not connecting demand no still we have reported growth in volume?
- S K Khandelia:** Yes, volume growth is there simply due to one reason that, as I mentioned that we were carrying at very excessive inventory at the end of the first quarter and we have cleared major majority of those such inventory though still we have something. So, because of the clearance of those inventories, we could reduce our inventory and our revenues increased.
- So, that was for domestic as well as exports. So, that is that is the reason basically otherwise so if we reduce the inventories of about 112 crores or something like that of the finished goods and the work in process. So, that was for domestic as well as for exports.
- Rahul Sony:** So, on the expense of our realization, this volume growth has been there so that's what you wanted to say?
- S K Khandelia:** You see, whatever it was since we have been a regular player at least we could sell others were finding even difficult to sell. So, that was the plus point, which we had even in reducing inventories in such bad markets, people have increased the inventory whereas we have been able to reduce it.
- But with sizeable number that is the strength which we have say market rates will depend upon the demand and supply and the reason of fall as I mentioned domestically was under pressure because of less demand in exports and since developed countries has a lot of inflationary pressure uncertainty, discretionary demand came down and therefore the realizations were under pressure in domestic market and as well as export market, but because of our strength of the business and diversified product portfolio we put clear such a huge amount of the inventory which we were carrying. So, that that is the strength which we could definitely like to mention here. Thank you.
- Rahul Sony:** So, what kind of volume growth and margins you are aiming for the full year and next year?
- S K Khandelia:** In this quarter we have yarn volume sales was 30,271 tons and earlier previous quarter is about 26,944 quarters in corresponding quarter it was 25,540 quarters. So, if I take about 12% volume growth.
- Rahul Sony:** So, overall growth your guidance in overall growth for FY24 and 25?
- S K Khandelia:** It's very difficult at this point even two quarters are not visible '24-25 otherwise we have been touching 3,000 crores as you know we have already touched and there would have been normal growth and we have always been doing something, something, something new. So, in this period

of uncertainty and there is no visibility at all no one is able to tell. So, I'm sorry, I will not be able to give anything about '24-25 right now.

Rahul Sony: So, sir like in exports you have good exposure in the export market, so would you like to explain what is your client profile or what is the business model, so who are your clients globally and also domestically, if you can explain?

S K Khandelia: Say we supply to industrial; we supply to home textiles, we supply to apparel manufacturers and our exports are to 60 countries, 70 countries. So, it's very diversified and exports we are still continuing, we are still maintaining our customer. It may be a matter of the quantum, maybe less realizations may be more, but we are very much present there also right now.

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

S K Khandelia: Thank you. In conclusion, I would like to say that it appears to me that worst is behind us and from here onwards even in third quarter or in fourth quarter there will be continuous gradual improvement even in these worst market conditions, and this is what appears to me, though, everything remains uncertain, and no one can predict for the future.

Challenges are continuing and we are continuing our focus to drive the business and we have long experience. So, I think we will be able to do much better and then the general industry, particularly realizations and other things are the market and with this I would like to conclude, and I wish all of you very Happy Diwali and prosperous New Year ahead. Thank you.

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