February 12, 2024

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विक्रम संवत, २०८०

National Stock Exchange of India Limited
"Exchange Plaza"
Bandra – Kurla Complex,
Bandra (E), Mumbai – 400 051
NSE Code: GHCLTEXTIL

BSE Limited
Corporate Relationship Department,
1st Floor, New Trading Ring, Rotunda Building, P.J. Towers,
Dalal Street, Fort, Mumbai – 400 001
BSE Code: 543918

Dear Sir/Madam,

Subject: Filing of Transcript regarding Investors' conference held on February 6, 2024

In continuation to our earlier communication dated January 25, 2024 and February 6, 2024 regarding Investors' conference on February 6, 2024 and pursuant to requirement of Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we are pleased to attach copy of the transcript regarding said Investors' conference held with the management on February 6, 2024 for your reference and record.

Please note that copy of this intimation is also available on the website of BSE Limited *(www.bseindia.com/corporates)*, National Stock Exchange of India Limited *(www.nseindia.com/corporates) and website of the Company (www.ghcltextiles.co.in).*

You are requested to kindly note the same.

Thanking you

Yours faithfully

For GHCL Textiles Limited

LALIT NARAYAN DWIVEDI
Digitally signed by LALIT NARAYAN DWIVEDI
Date: 2024.02.12 17:09:30 +05'30'

GHCL TEXTILES LIMITED

Lalit Narayan Dwivedi
Company Secretary and Compliance officer
Membership No.: FCS10487

“GHCL Textiles Limited

Q3 FY‘24 Results Conference Call”

February 06, 2024

MANAGEMENT:	**MR. R S JALAN – NON EXECUTIVE DIRECTOR – GHCL TEXTILES LIMITED** **MR. RAMAN CHOPRA – NON-EXECUTIVE DIRECTOR – GHCL TEXTILES LIMITED** **MR. R. BALAKRISHNAN – CHIEF EXECUTIVE OFFICER – GHCL TEXTILES LIMITED** **MR. N. RAJAGOPALAN – HEAD OF TECHNICAL – GHCL TEXTILES LIMITED** **MR. GAURAV – CHIEF FINANCIAL OFFICER – GHCL TEXTILES LIMITED**
MODERATOR:	**MS. SHEETAL KHANDUJA – GO INDIA ADVISORS**

Moderator: Ladies and gentlemen, good day and welcome to GHCL Textiles Limited Q3 FY24 Earnings Conference Call hosted by Go India Advisors. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touch-tone phones. Please note that this conference has been recorded.

I now hand the conference over to Ms. Sheetal Khanduja from Go India Advisors. Thank you and over to you.

Sheetal Khanduja: Aditya, good evening everyone. A warm welcome to everyone attending the GHCL Textiles Limited Q3 and 9-month FY24 earnings conference call, this is the maiden concall for GHCL Textiles. We have with us on the call today Mr. R.S. Jalan, Non-Executive Director and other members from the senior management team. The discussion today may include certain forward-looking statements and may be therefore viewed in conjunction with the risks the company faces.

I shall now hand over the call to Mr. Jalan for his opening remarks. Thank you and over to you, sir.

R.S. Jalan: Thank you, Sheetal. Thank you very much. Good afternoon, everyone. Ladies and gentlemen, we are pleased to welcome you all to our Q3 and 9-month FY24 earnings concall. Our investors' presentation has been uploaded on the exchange and we hope you have had the opportunity to review it.

This is our first-ever investor call for GHCL Textiles Limited and I am accompanied by Raman Chopra, Non-Executive Director and the management team led by Mr. R. Balakrishnan, CEO, Mr. N. Rajagopalan, Head of Technical, and Mr. Gaurav, CFO. In the interest of some of the people who are new to the company, let me first start by giving a brief introduction and overview of the company, followed by the strategic updates and performance highlights.

GHCL acquired Sri Meenakshi Mill in the year 2001 and the business has been turned around from a loss making 65,000 spindles to a new profitable business equipped with state-of-the-art manufacturing with 225,000 spindles and 62 megawatts of renewable energy assets. In the last 20 years, we have achieved a 15% CAGR revenue growth and EBITDA of 31% CAGR growth. Our average EBITDA margin for the last five years is 17%.

The spinning business has been demerged into GHCL Textiles Limited and is listed on both the National Stock Exchange and the Bombay Stock Exchange since June 12, 2023. This demerger was done with the objective to simplify the corporate structure, facilitate independent growth path and maximize shareholder value.

Today, GHCL Textiles is a prominent yarn manufacturer known for its high quality products. Our philosophy is to manufacture premium products including high quality yarn. At the core of our strength is the ability to deliver customized value-added products that cater to the unique requirements of our customers. With a dedicated workforce of 3,150 employees, among whom 80% are trained and committed women, we emphasize our commitment to community involvement, a significant factor contributing to our success.

Moving into the business scenario, cotton prices are now stable in the domestic market as well as in the New York future. Overall, the yarn market seems to be improving now and the domestic market demand is better in the value-added count and the imported cotton yarn segment. In the Europe and U.S. markets, there are signs of improvement after the festive season.

In the near term, our outlook as the cotton prices are more stable, we expect the demand to recover gradually, spreads should improve and downside seems to be limited. Our Q3 FY24 revenue from operations showed a year-on-year increase of 5.7%, reaching to INR 246 crores, with a 54% coming from a value-added product.

EBITDA for 9 months FY24 came in at INR 60 crores as compared to INR 70 crores for full year 2023. Overall, our plants are operating at 98% plus capacity utilization, balance sheet remains healthy at INR 2 crores net debt, which offers ample room for growth. GHCL Textiles division's vision is new investment under MOU we have signed with Tamil Nadu government with around INR 1035 crores investment. Out of that, INR 360 crores has already been invested as on 31st March 2023.

This investment propels our initiative for expanding capacity, diversifying our product range, vertically integrating textile manufacturing to include knitted and woven finished fabric. We will augment our green energy portfolio to 75 megawatt from the current 62 megawatt, thereby enhancing both cost-benefit and sustainability. We also plan to gradually increase the spindle by around 1.5 times. Our vision is to double our revenue in the next 3-5 years and maintain an average of 18%-20% EBITDA margin.

Thank you. We can now open the floor for Q&A.

Moderator: Thank you very much. Our first question is from the line of Jalaj from Svan Investment. Please go ahead.

Jalaj: Thank you sir for an opportunity. Sir, as you indicated that the spreads are improving and there is a limited downside. So, can you help us in understanding what were the spreads in the last quarter and what are the spreads right now?

R.S. Jalan: See, basically as I mentioned to you in terms of the number which I have given you, EBITDA margin in this quarter which is Q3 is around 8.2% to be precise. And our expectation in the fourth quarter, it should range around 10%-12% kind of a number. And I think 24-25, my belief is that this number should come back to the normal of around 15%-17%.

Jalaj: So, this is, I mean, what will, is this just a stretch or we are doing, we are improving and I think this is also some product level changes that we are doing which will help us in improving this margin?

R.S. Jalan: Basically, this will be the major portion of this will be from the market outlook and the cost of raw material which is the cotton. Because now the cotton prices as I mentioned is stable and we believe that this cotton prices should be in the range bound and the market demand will improve and particularly the value added segment which we are focusing on, there also we are seeing a demand traction is happening. So, this all will help you and in terms of the efficiency, that is a continuous process.

Like I said, my utilization is already 80, 98 plus or maybe in some units it is 99 plus. I do not see major benefit coming in. Of course, some benefit of your energy because in the last year or current year, in the last second quarter, we have made some green energy investment which has started getting the benefit.

So, probably that will also get annual benefit next year. All put together, I think this benefit or next year of the outlook which I am talking about.

Jalaj: And sir, in terms of the expansion that you have taken because you have already invested INR360 crores in Tamil Nadu, you will be increasing your spindle by 40,000 in two phases. So, by when this facility will come and what will be the incremental contribution from these new spindles?

R.S. Jalan: You see, this 40,000 spindle has already come in and this is operating fully right now. And obviously, that will help us to kind of have a bigger revenue. Next year, 2024-25, you will get the full benefit of this revenue as well as the EBITDA margin. Add on to that.

Jalaj: Sir, can you quantify in terms of…

R.S. Jalan: We are also adding another 25,000 spindle. The work has started and that will come on screen by March 25. So, benefit of that will come in 2025-26.

Jalaj: So, incremental revenue contribution, can you help us in what can be incremental revenue contribution from the 25,000 spindle that will come in FY26?

R.S. Jalan: Sir, broadly, roughly around INR250 crores kind of a revenue is coming from that.

Jalaj: Okay, sir. Thank you, sir. That's all from my side. I will come back in a few if you have more questions. Thank you.

Moderator: Thank you. Our next question is from the line of Majid Ahmed from Smart Sync Investment Advisor. Please go ahead.

Majid Ahmed: Thanks for the opportunity. Firstly, how is the export revenues looking like and going forward? Do we anticipate a larger pay-off revenues coming from exports? Any ballpark numbers that you can guide? That's the first question that I have. And secondly, on a capacity expansion, we are moving to value-added products, higher margin products. How much incremental revenue is expected to add once the capacity expansion is done? And what will be the revenue mix looking forward for value-added products and other products? Thank you.

R.S. Jalan: Yes, basically, if you look at in terms of our export footprint, which was in the range of around 6%, moved in the 9 months, it is around 14%. And gradually, our belief is that the next year, we should be hitting a target of around 20%. So gradually, we are increasing our footprint on the export.

The second question which you spoke about the new investment. Sorry, if you could repeat your question. Second question.

Majid Ahmed: Yes, Yes. So the second question, you are moving to value-added products. How much incremental revenue is expected when the capacity expansion is done? That is the first part of the second question. And secondly, what is the revenue mix we are looking for, value-added and other products?

R.S. Jalan: Yes, so if you look at in terms of our revenue growth, which is approximately this year will be likely to be around INR 1,000 crores. This should move next year around INR 1,300 crores to INR 1,400 crores kind of revenue should come in. And the second, what you said about the revenue from the new investment which we are talking about, next year our revenue will be something around INR 1,300 crores to INR 1,400 crores.

Majid Ahmed: Yes, that's fine, but I'm saying the revenue mix for value-added products and other products.

R.S. Jalan: So I think that number we have, I think it's around 52% or 56%, 54% is the value-added product. And probably I would say that this should be in the same range bound of 54% - 55% kind of a range bound for the next year as well.

Majid Ahmed: What's the margin that you're expecting value-added products going forward?

R.S. Jalan: See, margin generally in the value-added product, when we talk about the value-added product, I'm talking about the specialized yarn. Let me be very clear on that. The margin spread between the commodity and the value-added segment, there are two important differentiation. One, in the value-added segment, the fluctuation in the market or the beating on the market condition gets reduced. That means your stability of margin will be visible on that. That's number one. And the second will be your advantage of margin will be something around 2% to 5% kind of depending on what kind of a product. 2% to 5% extra margin you should be getting on that product.

Majid Ahmed: Thank you. All the very best.

Moderator: Thank you. Our next question is from the line of Sarvesh Gupta from MX Capital. Please go ahead.

Sarvesh Gupta: Good evening, sir. Just to understand, so this quarter, this increased 40,000 spindle is already there in this quarter and we are doing around INR250 crores, right? So then how are we expecting INR 1,300 crores to INR 1,400 crores in the next financial year?

R.S. Jalan: As you rightly said, if you look at in terms of our total, if you look at '22-'23, you will find our revenue was in the range of around INR 900 crores to INR 1,000 crores. And this drop which has happened is primarily in spite of this new 40,000 spindle coming in, in spite of that this year's revenue, that means there was a significant drop in the per unit sales price, right? So, our expectation is that the selling prices will improve because I said that spreads will increase. So that's number one.

Second, the full utilization of this 40,000 spindle and another two investments which we made in the other two units of making our product volume higher in two other units, that has just completed in December. So the benefit of that will also coming in the next full year. All put together, based on this, our expectation is around INR1,300 crores of investment will come in.

Sarvesh Gupta: So sir, 225 was the earlier one, 225 got increased to 265, which is like 17%-18% growth. So what we are saying, because of other measures, we are expecting more than 30%-40% growth in spite of the capacity going up by 17%-18%. Is that the right understanding, sir?

R.S. Jalan: No, basically I'm giving you a nine-month period or the 12-month period of last year, okay, that's a consolidated number, which is INR 1,037 crores last year, FY'22-'23, INR1,037 crores, okay, to be precise.

This year we are expecting this number to be on the same level of INR 1,055 crores, almost same level. Okay. Now basically what we are saying is there are three changes which will happen. On one side, there's two new investments which we have made, that one investment which will give you benefits, number one. Number two, this benefit of this 40,000 spindle, which will get fully utilized, which was not there in the whole nine months. That is number two. Number three, we are expecting that the revenue will increase because of the per kilo shelf utilization will also improve.

I'm simply giving the math. In last year in FY'22-'23, my revenue was INR 1,000 crores. After that, we have added 40,000 spindles. By all means, this 40,000 spindles should have given me INR 300 crores of top line, right? So, this put together, our estimation is next year it will be INR 1,300 crores.

Sarvesh Gupta: Understood, sir.

Moderator: Hello, sir. Sorry to interrupt, sir. There are many people in the queue.

Sarvesh Gupta: Yes, just one more, just to finalize this conversation. So, this I understood, sir. What is the working capital cycle for this business and what will you expect next year?

R.S. Jalan: Generally, the working capital cycle is around 130 to 140 days in this business, generally. Okay. But depending upon some time of the market, this 10 days here and there. Again, seasonality is also very important. Because when you see in the month of December, probably the working cycle will be slightly higher because you buy the cotton, which is a very major raw material of your thing.

The number of days are higher, but if you look at in the month of June, probably you will find the number of days cycles are less. But generally, you will assume 120 to 140 days kind of a business cycle in this.

Sarvesh Gupta: And depreciation should remain the same because now we have already done all the investments for this 265?

R.S. Jalan: Yes, this lot of depreciation will remain the same.

Sarvesh Gupta: Understood, sir. Thank you and all the best.

Moderator: Thank you. Our next question is from the line of Deepesh Agarwal from UTI AMC. Please go ahead.

Deepesh Agarwal: Yes, good evening, gentlemen. My first question is a clarification. When this 40,000 spindles got operationalized? Was it the end of December?

R.S. Jalan: No, this had got, I think in the month of October, got commissioned.

Deepesh Agarwal: Okay, so the utilization number which you are sharing at 98%, this is excluding of this 40,000 spindles or even that is included here?

R.S. Jalan: That is also included in that. And you see, basically what is this 98% when I am talking about this, I am talking about in all the units because we have a separate unit for the, I think we have five units, okay? So, almost somewhere it is 99%, somewhere it is 98%. So, in all the units put together or I will say even if you look at separately, also you will find that in all the units, it will be 98 plus utilization. In some cases, it will be even 99% also. So, we are fully utilizing the assets.

Deepesh Agarwal: Understood, understood. And so, I think you also have a fabric revenue. So, what would be the fabric capacity currently, fabric revenue and expansion plan out there?

R.S. Jalan: You see, fabric, we are right now not very significantly placed there. What we are doing is, we are doing the kind of a some outside fabric conversion and we are exporting that fabric. And the purpose of this is doing it to understand the market and kind of a ultimately like I said in the opening remarks, to ultimately penetrate or make our own manufacturing of fabric, including the knitting and weaving both. So, currently we are doing, but we have a plan to make an investment or make our own unit for that.

Deepesh Agarwal: Okay, and this will be grey fabric, there is no processing involved right now?

R.S. Jalan: Yes, we will go gradually on, first we will go for the grey fabric of weaving and knitting. Then ultimately, we are planning for going for a processed fabric also, maybe later on that.

Deepesh Agarwal: Okay, any plan so far framed up there for the expansion on the capacity there?

R.S. Jalan: Sorry, can you repeat? I am not understood. Your voice is little…

Deepesh Agarwal: So, can you share more insights on your fabric expansion plan?

R.S. Jalan: I am not understood your question. Honestly, can you slightly away from your speaker and your voice is slightly not very clear. Can you repeat the question again please?

Deepesh Agarwal: Yes, so my question is, can you throw some more light on how do you plan to build a fabric capacity, by when, what could be the type of capacity, any plan yet?

R.S. Jalan: This, I think we are in the, like I said, we are in the phase of studying this market and probably this will happen in 2025-2026, because currently at this year 2024-2025, we will be making this 25,000 spindle investment. And based on our experience of this, 2025-2026, our aggressive plan will be more, instead of going for a spinning side, we will go for a weaving and knitting investment.

Deepesh Agarwal: Understood. So, what is your inventory holding policy for cotton?

R.S. Jalan: You see, basically it's a very dynamic decision, honestly, it's a very dynamic decision. Because we have a deep rooted expertise, if I can use the right word, of understanding the market and we do a very detailed evaluation on a day-to-day basis and to understand the sentiments of the market. And based on that, we make a decision.

But generally I would say that policy, or in a way I would say the preference always is that we try to build the inventory if we believe that the cotton prices are going to be stable. We try to bring the cotton because of the quality, say around 80% of the total requirement of the year by March. Like this year, if you look at our plan is to cover 80% of the cotton by March, because the season starts from 1st of November and up to next of 31st of October, 12 months, 80% we will be covering by March 24th. And balance 20% we will be covering over a period of time. So that is where the right now this year's plan is. But last year was slightly different.

Because we believe that last year the availability of the cotton in the market, and we became right on that. The availability of the cotton will be there because the crop size we could estimate, we have seen that the farmers are holding the cotton, and ultimately those cotton will come and the quality will not be an issue. Therefore last year the figure was much lower. So depending upon how the market scenario is, we try to cover the cotton.

Deepesh Agarwal: Sure. And lastly, sir, if you can share what would be the capex for the current year and capex estimate for the next year?

R.S. Jalan: See, next year our major investment will be only this 25,000 spindle, which is roughly around INR 200 crores. And this year I think we have already made an investment of something around INR 66 crores, and maybe another INR 10 crores - INR 15 crores kind of a number will be coming in.

Deepesh Agarwal: Sure. And maintenance capex would be another INR 30, INR 40 crores?

R.S. Jalan: Maintenance expenditures are not part of this. Maintenance expenditures always get charged to the profit and loss account.

Deepesh Agarwal: Sorry, can you repeat?

R.S. Jalan: Maintenance costs, we always built into that operating profit, and we never kind of capitalized that maintenance cost.

Deepesh Agarwal: Okay, understood. Thank you, and all the best.

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

Saket Kapoor: Namaskar, Jalanji and the team, and thank you for this opportunity, and thank you for engaging with investors in the meeting concall. Congratulations to the entire team. Sir, firstly, if we look at our current margins, the current margins are outcome of the inventory losses, and this is only what is going to get normalized with the current cotton season. This should be basic understanding?

R.S. Jalan: I would say that yes, to some extent, the inventory of cotton which might have been procured, particularly the imported cotton, some elements will be there, but that's not 100% of that element. Some elements definitely will be there. The second, see we are definitely expecting that the spread or the margin will improve because of the improvement into the yarn prices. Because these are the rock-bottom prices, and since the cost is now more or stable, we believe that the yarn prices will improve. That will improve our margins. And quarter by quarter, the improvement will be visible. Quarter by quarter, we will find that the margins are better than last quarter. That way it will happen.

Saket Kapoor: Sir, can you throw some more light on the trajectory, how the yarn prices and the spread have behaved over the last three sequential quarters, the June, September, and December quarter, just to get an understanding of how well the margins are now turning up the up curve?

R.S. Jalan: I think, Saketji, if you look at the numbers, I think we have given that in the investor presentation which we have uploaded. You will see that till June 22, I think margin was on a peak. Subsequently, the margin started getting deteriorated. And ultimately, till I would say last quarter, which is Q2, our margin was in Q2, was almost the same level of 8.3%. Same level of what is there. That means the stability started coming in from Q2, 24.

There are some elements of cost, some elements of pricing, all those things will be… combination will be there. If you look at FY '23, my margin was 6.8%, EBITDA margin was only 6.8%. And that was primarily got impacted severely into the second and third and fourth quarters. Earlier it was very good. In Q3, FY '23 was only 1.4%. So here, with the same quarter last year, this margin was only 1.4%. I hope I have been able to answer your question. That's the way we are looking at. And maybe next quarter, if everything goes well, the margin will be better than the 8.2%.

Saket Kapoor: And sir, what has been our investment in the renewable segment, especially in terms of the captive power investment we have done? And then sir, for the line item, power, fuel and water expenses, does this include only the coal and the electricity charges that get invested in? I mean, if you could explain.

R.S. Jalan: No, two things. One is that in terms of, like I said in my opening remarks, we have approximately around 62 megawatts of green footprint, which takes care of 72% of our requirement. And that is a huge advantage in terms of both, in terms of the sustainability and in terms of our cost, what we call the cost, freezing the cost, let's put it that way.

And the second, like you said, line item wise, we don't use any coal here. It is only the power, which has electricity and we even buy some power from outside also. Electricity, both, we are almost buying negligible. So we buy from third party. Even we buy the green power also from third party. And this year, the TLEP has increased the prices and because of that, the buying, which we have done, is on the higher side. And because of that, cost is slightly higher compared to the same, means, sequential quarter of means Q2, FY '24.

Saket Kapoor: Okay. And the captive percentage is that how much, sir, of the total power requirement?

R.S. Jalan: I said 72%. Of course, it will be…

Saket Kapoor: 72%, sorry. And further investment also we have outlined, sir, in the renewable segment?

R.S. Jalan: Yes. Like I said, again, my opening remark, our target is around 85% kind of a power. Of course, we have to look at, because in this slightly technical side, we have to look at the zone wise also.

There are different zones in the peak period where the rates are different. And we have to utilize those in a rightful manner. Otherwise, investment will not give me a return.

At this point of the time, at least in the next two years, we are not visualizing any green investment for the time being. But once this investment of 25,000 is single guest commission, probably we will put two things. One is the rooftop, because rooftop we are really utilizing well. So, because in all our factories on the rooftop, we have a solar. So, once that project is completed in '24, '25, in '25, '26, we will go for the rooftop. And depending upon its requirement and like the economy, which I said, '25, '26, probably we will make some investment into the renewable energy as well.

Saket Kapoor: And last point was about the selling patterns. Are our selling based on the contract basis, quarterly, annual contracts, or are they spot market sales? We have mentioned names of a lot of market clients. So, how do we, just if you could explain to us the selling process.

R.S. Jalan: Yes, Saketji, I would like to say two things here. One is that there are customers which I have mentioned there. They all are kind of strategic customers. And when I say strategic customers, whether they have a specific requirement, a specific need of the quality, and we understand their quality needs because every customer has a different need. So, we are kind of building their portfolio based on the customer's need of a particular variety or particular type of quality. So, that we call it a strategic customer.

Number two, these contracts are generally on a transaction-to-transaction basis. Suppose they have a requirement of 100 tons, because they got orders or something and they want 100 tons. So, they will book 100 tons of quantity. That may be delivered in two months or that may be delivered in one month or that may be delivered in three months. Here, it is not like that, okay, you have booked for a year or booked for six months or booked for three months. That doesn't happen. It always happens, quantity, specific quantity, and that gets delivered maybe in two months or three months maximum.

Saket Kapoor: Right, sir. So, we get a visibility on a quarterly basis on what kind of deliveries are and that gives us the confidence that we are running on 98 or almost at full utilization levels.

R.S. Jalan: No, I would not say that because of that, that we get a visibility because there are many of the volumes. It is not that, okay, in the month of December, I am very clear that what I will be producing in the month of January, February, March. No, we don't have that because product gets produced also and sold also. But we typically know these are the counts which are the requirements of the customers. We typically know that these are the volumes which the customer will say. Second is, many of the counts which are not used by only one customer, that is being used by many customers. So we produce and sell those quantities. Like which is, you can say in a way, high quality commodity product.

Saket Kapoor: Sir, just a small point. So, we have repeat customers in the entire ecosystem and then we also look out for new customer addition. Just to understand this, you are very confident about going ahead, what kind of revenue trajectory you are looking. So, in that case, you are also very confident where is this going to be sold to. That was the reason. So, we have a repeat set of customers to whom there is a dedicated setup wherein we know their requirement and we prepare according to that. This is a better understanding?

R.S. Jalan: Let me clarify this. Historically, we have been using this 98%-99% utilization. Historically, it's not that the last quarter we have done and a year before it was 94%. So, we run this 98%-99% consistently. Now, coming back, like you rightly said, we have a visibility that what customers are looking for to be sold. Though we may not have sold it, but their monthly requirements are that kind. And they always take their product on a month-to-month basis. I hope I am clear. That is number one.

Second, sometimes we get an order in advance also, which is very specialized in nature. And then we get a visibility of at least for three months or two months or three months of time with a particular count. It is a very stable business. It is not that depending upon the demand and supply situation, if you are in a premium product, I would not say that if the market is slightly down, therefore you utilize it and have to go down. That will not happen.

Saket Kapoor: Correct. And lastly, sir, on inorganic growth...

Moderator: Our next question is from the line of Naitik from Sequent Investment. Please go ahead.

Naitik: Hi, this is Naitik from Sequent Investment, actually. So my question was regarding the EBITDA margin guidance that was given earlier on the call. So we are planning for a margin expansion towards 10% to 12% in quarter 4 and then probably 15%-16% in FY '25. So what would be the level that you think would come into picture for this margin expansion? Are we thinking that realizations are really going to go up for yarn right now? Or is the impact of lower cotton pricing is something that we are accounting for? Anything regarding that will be there?

R.S. Jalan: Yes, Naitik, let me give you my understanding about this business. Because we are in this business for a long years. Please understand one thing in this business, the volatility will be there. And so that volatility will be visible. Like you have seen that in '22, our margin was 27%. Whereas '23 margin has gone down to 7%. So that kind of a volatility was there. So neither 27% is realistic nor 7% is realistic. So therefore what we always say is that medium comes to longer term. Like if you look at our margin for last 10 years, you look at our average margin of last 5 years. You will find that the margins are around in the range of around 16% to 17%. And based on the understanding, like I just said, already more than a year or more than a year and a half, the market was subdued. And therefore we are expecting this margin will come back to the normal level in '25-'26, which is 17%.

Naitik: Sir I understand that, I was just expecting if you could give some guidance on be it on the sale side or be it on the lower cost of raw material side what was exactly that we were looking for or is it just that we expect the margins to return to the given period of time?

R.S. Jalan: Let me give you one very unique thing in this. See, in this, the most important thing which we monitor is the spread. You will see cotton price, like I said already, cotton prices are more stable, right? Cost also, if you look at my power cost, you will look at my labour cost. My labour cost is minimal, okay? So the basis is margin expansion which I'm talking about is more on selling price going up and cost. Because the cotton prices are stable, cost and like someone already rightly asked, some high cost of inventory that will get settled. All put together, this spread will be, even when we prepare our annual budget, we don't prepare on the basis of selling price and on the basis of cost. We prepare what is the spread which we are likely to get. Of course, in that backward working we do with your cotton prices. But our benchmark of study and the performance is more on what is the spread we are going to get. And that spread, I said, 17% is just medium to long term. 17% to 20%, now our target is 20%. And hopefully in next year 24-25, it should be in the range of around 15%-17%. We believe that we will be in a position to achieve.

Naitik: Okay, sir. Thank you.

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

Prerna Jhunjhunwala: Hello, sir. Thank you for the opportunity. I have joined the conference a little late. So, pardon me if the questions are repetitive. I just wanted to understand the demand scenario. How is it panning out for Q4 and going forward? Especially from your long term margin perspective. By when do we see they being achieved? If the scenario continues to improve the way it is right now?

R.S. Jalan: See, Prerna, like you rightly said, in terms of the Q4, it looks to be better than Q3. And we personally believe that 24-25 should be coming back almost to the normal level. That is what our guidance for this business, we are seeing. Of course, as you know that the market of geopolitical systems are so volatile. So, probably talking with certainty will be difficult. And the regions are very clear, let me tell you. Three regions are which, one is Indian cotton prices are almost at the rock bottom. Because these are at the level of a support price for the government. Number one.

Number two, these talking with the global market has already happened. And therefore, there is a good opportunity and particularly I'm talking about the spending perspective. This talking has happened because the market was falling. And people were of the belief that further market will go down. And therefore, almost the system was completely, pipeline was almost like empty.

And now the demand of the final product, look at the home textile, look at the garments, are looking up. So, we clearly see that demand will look up. And once demand look up, automatically margin expansion will take place.

Third, probably as I said, probably this year cotton outlook, it looks to be stable. But on the other side, and that's the reason some other investors have asked me, where I said 80% of the cotton we are covering. Probably there is a likely chance that in the later part of this year, maybe June onwards, the prices of cotton may form up. And we are preparing ourselves to cover that cotton well in advance with the quality and everything. So, that will also kind of help us to kind of a decision. So, broadly our confidence level are based on these three parameters.

Prerna Jhunjhunwala: And how is the supply in the yarn market with respect to capacity, utilization, and where do you see, where it was last quarter, Indian versus global?

R.S. Jalan: We are utilizing our assets 100%. I just mentioned in the prior discussion, all the assets are fully utilized. And even I would say that the competition also, barring maybe marginal players, everyone is utilizing their assets fully. Because that buoyancy, everybody is seeing in this industry. So, and I personally have the opinion that the outlook is positive for the spinning industry.

Prerna Jhunjhunwala: Spinners are getting the command back on the spread because the utilization levels and other key reasons that you mentioned earlier. Is that understanding correct?

R.S. Jalan: Gradually things are improving, yes. Gradually things are improving. Of course, the first benefit will be coming to those people who are quality producers like us, where we have a very focused approach towards the customer. And the people who delivers on a consistent quality, they will get the first preference. And subsequently, obviously, when the demand picks up, the other people also get that benefit of it.

Prerna Jhunjhunwala: Okay. So, do you also do blended yarn, polyester cotton, polyester viscose?

R.S. Jalan: Yes, Prerna, we do that. We have a variety of baskets. We produce from open end, we produce even LG spinning. We produce fine quality from even including 120 count from a premium product. We produce Australian cotton. We produce Giza cotton. We produce knitting. We produce weaving. We produce synthetic also. In synthetic, we have three establishments. Almost more than 40% of the capacity is on the synthetic side. We have been produce many modal, many kinds of products, a variety of products. And particularly in the synthetic side, we have a vast number of blenders. CP, modal, polyester cotton, slab yarn, fancy yarn, many varieties.

Prerna Jhunjhunwala: Okay. The QCO has been implemented recently, maybe from last quarter, October only. So, could you help us understand, will it have any impact on the product volume or margins? And where are we in that journey? And how much percentage of our production will be benefiting or not benefiting from that movement?

R.S. Jalan: Sorry, Prerna, can you repeat what you said, which policy you are talking about?

Prerna Jhunjhunwala: The QCO, quality control order, has been implemented by the government on polyester yarn. So, it would be applicable for blended yarns as well, where polyester content is higher than 50%. So, just wanted to check on that as well will it help us or not?

R.S. Jalan: It will definitely help us in a big way, Prerna.

Prerna Jhunjhunwala: Okay. How much percentage of our revenue would be those products? And have we seen margin or volumes improving on those products?

R.S. Jalan: Ultimately, this will take some time to get the margin expansion on that. And we don't see that segment-wise we don't see.

Prerna Jhunjhunwala: Okay. Understood. Okay. And one more question from my end. Indian cotton prices currently are beneficial, are at a discount to international prices. Do you think the scenario is changing anytime because of any reason?

R.S. Jalan: Like I said, Prerna, just now that what we see, of course, as you rightly said, Indian cottons are, and generally Indian cottons should be on a discount level because of, if you compare this cotton with American cotton or Australian cotton, because of contamination, because of other properties, particularly contamination is a very, very big factor. So, some discounts should be there. And my understanding is that the cotton prices after June probably should be on an upward trend. And maybe this gap can narrow down.

Prerna Jhunjhunwala: Okay. Understood. And last question.

Moderator: Sorry to interrupt ma'am. There are several participants are waiting for their questions. Can you please come to the queue?

Prerna Jhunjhunwala: Sure, thank you. No problem.

Moderator: Our next question is from the line of Jitesh Gupta from Jain Capital. Please go ahead.

Management: Thank you. Mr. Gupta, your voice is absolutely not clear.

R.S. Jalan: Mr. Gupta, your voice is absolutely not clear. So, please, can you…

Moderator: Yes, sir. Our next question is from [Akshay] Kothari from GHP. Please go ahead.

Akshay Kothari: Yes, thanks for the opportunity. So, one thing I could not understand is, say for 40,000 spindles, if we do INR300 crores of revenue, for the existing 1,85,000 spindles, because 40,000 got operationalized only in October, our revenue should be around INR1,200-INR1,300 crores. So, what am I missing in that?

R.S. Jalan: Two things, Akshay, you are missing in that is that one is that every spindle does not produce the same revenue because of the count which you produce. With the same 20,000 spindles, I can have a revenue of INR200 crores also, and I can have a revenue of INR100 crores also. So, depending upon what count, like take an example, if I produce from the same spindle, 100 count, my production will be much lower in terms of the value, and therefore, the revenue per spindle will go down.

Of course, the margins will be different. So, you can't simply calculate like that, that okay, 40,000 spindles, you have INR300 crores, so therefore, INR225, because it depends on which count you produce, are you producing fine count, are you producing [costal count]. Because same thing, if you compare with the competition, you will find that some competition with a 1 lakh spindle, their revenue could be something around INR1,000 crores. Because their costal count, like Northern Mills, if you look at, they are all in the costal count, 20s, 16s, 18s, 24s, there the revenues per spindle are very, very high. And therefore, our first objective always is when we say, like I said in the earlier question also, we look at the spread, and our norm is value addition per ring frame, we call it a J.

Our focus is always on the decision making is on the value addition per ring frame because that's the limitation factor in the entire business.

Akshay Kothari: Okay. So, secondly, what is the currently ROE and ROC we are trading at?

R.S. Jalan: See, generally, like you rightly said, our ROC is slightly on the lower side, it is around 11%. And that is where we are looking for it now. Like I said, in terms of your cotton planning, and broadly it is around 11%. Our plan is to take it to around 14%.

Akshay Kothari: Okay. And sir, one of the companies is Ambika Cotton Mills, which actually commands margin north of 17%-18%, which you are also guiding for. Now, one thing which I have observed in that company is they actually don't sell at a very lower cost. Even if the market conditions are not conducive, they will hold on to inventory. So, in that case, their working capital cycle actually goes up. So, do we also do such kind of thing wherein we would command our price, and if the price we don't get, we won't be selling?

R.S. Jalan: No, we don't do that. See, every company has a different philosophy, okay! Like you rightly said, Ambika has a different philosophy. They are present in a particular segment. They are present only in a kind of a knitting segment, whereas our product baskets are much wider. And in terms of the size also, our size is much bigger than them. They have around 125 kind of a spindle, if my memory is correct. But yes, they are on a platform, and where our vision, which we are working on that, and to some extent, I said value-added segment. They are in that segment where they have a full factor into their product. Yes. We will be looking at to come closer to those people.

And obviously, in our case, the margin will be more, because other cost of ours, like your power and things like that, will be better. So probably, I think our dream definitely is to come to that level, what Ambika is in terms of the quality. But as a policy, we are not holding the material and not sell that product. We don't do that.

Akshy Kothari: Okay, understood. Thanks a lot and all the best, sir.

Moderator: Thank you. Our next question is from the line of Mangesh Kulkarni from Almondz Financial Services. Please go ahead.

Mangesh Kulkarni: Thank you for giving me an opportunity, sir. Just more clarification on our current capacities as well as, means post this 40,000 capacity started. What is your current capacity? And then 25,000 during FY'25, when we are expecting? And also, is it part of this Tamil Nadu MoU or it is separate?

R.S. Jalan: See, in terms of the last question, it is a part of Tamil Nadu MoU, this INR 1,035 crores, as I said. And second 25,000 spindles will be coming in March '25. The target is that, like I said, next year, '24-'25, our top line should be around INR 1300-1400 crore.

Mangesh Kulkarni: Okay. So our current capacity is 2,25,000, not 2,65,000, right?

R.S. Jalan: 225000, right, including 40,000.

Mangesh Kulkarni: Yes. Okay. Understood, sir. Thank you.

Moderator: Our next question is from the line of Jitesh Gandhi from Discovery Channel. Please go ahead.

Jitesh Gandhi: Hi, sir. Just a quick question. Given effectively, structurally, ROE that you are saying a 14%-15% in a normalized state. The way to juice up ROEs would be to increase their leverage effectively and yet we continue to be debt-free now. And I know it's a good thing that we will reduce on our debt despite all of the renewable energy investments... But isn't there some way to either increase our renewable energy investments or increase capacity or then alternatively give up, return some amount of capital just so that we can have a normalized amount of debt on the books so that our ROEs are higher?

R.S. Jalan: No. You are right, Mr. Gandhi. That's completely agree with you. And that is where the journey now we are going ahead on that journey. You will see a kind of a growth path in this business going forward. And surely your concern is very right. And leveraging to an optimum level will be important in this. And that's the reason you are seeing that we are talking about INR 1,000 crores of investment. And so therefore, we have to kind of bring that return on equity to that level.

So far as the green assets are concerned, yes, in the green assets when you see the return on equity is slightly on the lower side. However, the biggest advantage which we get from the green energy, and I'm seeing a little bit of a longer term, this will definitely give us a much bigger opportunity with the customer's engagement. Because the way the global customers, now we are talking about a nomination with the best brand.

And that will bear one of the criteria in how efficiently you are using the energy or what kind of a portfolio of energy you have. So that will definitely give us a kind of an advantage. The second is your cost of energy gets stabilized for the next 15-20 years. I think keeping that into mind, a blend of growth and blend of priority on the customer side, I think our focus will be to achieve that margin of around 14% on a return on equity.

Jitesh Gandhi: Got it. Understood, sir. All right, that's all for me. Thank you.

Moderator: Our next question is from the line of Amit Khetan from Laburnum Capital. Please go ahead.

Amit Khetan: Hi, thank you for taking my question. So first, sir, you talked about increasing the export contribution. Just wanted to understand what implications does that have on both margins and working capital?

R.S. Jalan: See, basically, Amit, if you look at in terms of the export allocation, why we are doing it, because there are two reasons. We want to have a wider presence. That's number one. So that the dependability on one particular market is kind of reduced. That's number one. The second, obviously, in that market, you will have the premium product.

See, out of the portfolio market, like PIMA or GIZA, those kind of premium products or Australian, there the demands of those products are better in the overseas market. Of course, in India also, the premium customers are there. But I think expanding the market, I would not call it that the margins are much significantly better in the export market. I would not say that.

I would say it is more of a wider customer base, wider penetration, wider diversity onto the customer base is the prime objective of export. Our focus is on the synthetic side. This volume increase which we are talking about, from 14% to 20%, our focus is more on synthetic fibre. The synthetic fibre of this 40,000 spindles which we have come in, they are high quality synthetic yarn. And that yarn, we are trying to penetrate into the export market where definitely we will have a slightly better margin.

I hope I have been able to answer your question.

Amit Khetan: Yes, yes. And lastly, we made an investment of INR 66 crores this year in capex and you brought it to another INR 10 crores to INR 15 crores in the last quarter. Given that we have been expensing maintenance capex, can you just say what this INR 80 crores of capex is for? Is it for capacity expansion that we have already undertaken or is it for the green power additions?

R.S. Jalan: Basically, what has happened is, this is two things. Like I said, in two of the units, we have done the de-bottlenecking. In the existing farms in the two locations, we have done the de-bottlenecking to increase the volume in that. The primary, this money has gone into that and some amount has gone for the infrastructure.

Amit Khetan: Great, great. I must tell you that the presentation is very, very detailed and very good disclosure. I hope that will continue going forward.

Moderator: Thank you, Amit. Our next question is from the line of Sarvesh Gupta from XML Capital. Please go ahead. Hello. Hello, Sarvesh Gupta. Hello, sir?

Ladies and gentlemen, that was the last question for the day. I now hand the conference over to management for the closing comments.

R.S. Jalan: Thank you very much for all the investors. Like I've always been, of course, this call for the textile is the first time. But I just wanted to highlight a couple of things at the end, just to make my point clear.

One, our journey from 2001 to 2023 has been really exciting because we had an EBITDA growth of 31%, CAGR growth of 31%, which is not a small amount. You can imagine that 31% over a period of 21 or 22 years. Of course, the volatility in between was there.

We very judiciously invested the money in cost competitiveness, quality product, and expanding the volume in a very responsible manner. And it created a very focus of enhancing our market of the product. Like I just now said, we have a portfolio of synthetic fiber, we have a portfolio of double yarn, we have a portfolio of open end, we have a portfolio of cotton yarn, which is also very wide from 24 to 120.

And in the last four years, we have started focusing more on quality, penetrating into the quality customer, focus on the serviceability to the customer, understanding the need of the customer, and trying to service them on a unique position so that there is a kind of a repeat, and they're considered as more of a strategic customer. The team is working on creating a nomination from the various prime brands, because there the consistency of the quality is required. The journey has been very exciting, and we will continue to have this journey.

Our focus in this business will be growth, like Mr. Gandhi said, our focus will be to create a platform of the size of the business, with a right mix of spinning, and the value added of the weaving and knitting, including the ultimately going up into the processed fabric. Maybe once we are successful in this model, then we will look at beyond that. But right now, our dream is to that extent.

Our carbon footprint or our cost competitiveness will remain always a focus. In one line, if I can say, we will be relevant to the customer with a cost competitiveness and a quality product on a consistent basis, so that they are the customer for repeat, and repeat, and repeat for a longer period of time. I think with this objective, we will grow this business, and we will definitely achieve our target of 17% to 20% EBITDA margin, with a return on capital, or return on equity of 14%.

Amit Khetan: With this word, thank you very much.

Moderator: Thank you. On behalf of Go India Advisors, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.