



## SHIVA TEXYARN LIMITED

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22<sup>nd</sup> November, 2021

To

BSE Limited Floor 25 PhirozeJeejeebhoy Towers Dalal Street Mumbai 400 001  <b>Scrip Code :- 511108</b>	The Manager Listing Department National Stock Exchange of India Limited "Exchange Plaza", Bandra-Kurla Complex Bandra (East), Mumbai 400 051  <b>Scrip Code : SHIVATEX</b>
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Dear Sir,

**SUB:- TRANSCRIPT OF THE EARNINGS CONFERENCE CALL - REG.**

We are attaching herewith the transcript of the Earnings Conference Call held on Tuesday, 16<sup>th</sup> November, 2021. This information is furnished as per Regulation 30 read with Part A (15(b)(ii)) of Schedule III of the of SEBI (Listing Obligations and Disclosure Requirements), Regulation 2015.

Pursuant to Regulation 46(2)(o) of the Listing Regulations, the aforesaid information is also available on the website of the Company [www.shivatex.in](http://www.shivatex.in).

Thanking you

Yours faithfully

**For Shiva Texyarn Limited**

**R. SRINIVASAN**  
Company Secretary  
M.No.21254



“Shiva Texyarn Limited  
Q2 & H1 FY2022 Earnings Conference Call”

**November 16, 2021**



**MANAGEMENT:**

**DR. S K SUNDARARAMAN– MANAGING  
DIRECTOR - SHIVA TEXYARN LIMITED  
MR. KRISHNAKUMAR – CHIEF FINANCIAL  
OFFICER - SHIVA TEXYARN LIMITED**

**Moderator:** Ladies and gentlemen, good day and welcome to Shiva Texyarn Limited Q2 and H1 FY2022 earnings conference call. This conference call may contain forward-looking statements about the company which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Dr. S K Sundararaman, - Managing Director from Shiva Texyarn Limited. Thank you, and over to you, Sir!

**S K Sundararaman:** Thank you and good afternoon, everyone. I would like to wish you all a very warm welcome to Shiva Texyarn Limited's Earnings Conference Call for Q2 and half year ended 30 September 2021.

Let me first express my gratitude to all of you for taking the time to join us today. On the call with me today is Mr. Krishnakumar, our CFO and Bridge IR, our Investor Relations team.

Since this is only our second earnings call, I would like to share some brief insights and recent developments about our company before we get into business and financial performance for the year.

Let me start with few key developments in the recent past. As you are all well aware, the effects of COVID-19 pandemic continued to be felt during the initial month of this fiscal year as well. The second wave of the pandemic was very strong and wreaked havoc across several states including Tamil Nadu which witness lockdowns during the substantial part of Q1.

Production and logistics across various industries including ours suffered during this period and subsequently operations at our units were reopened in a staggered manner. However, with many markets reopening the scenario is better and improving significantly and this half year has definitely been better than the corresponding period last year which was more severely hampered by the lockdown of 2020, the year-on-year growth has come from a recovery markets and the company's resilience and the maturity of its products.

As you all know, we were at the forefront of the initial thrust against the pandemic by supplying SITRA-certified PPE Protective Coveralls to the government and then we added to this range with face masks, the N95 grade also with antiviral fabric and other specialized innovations which the company brought into the market. These products continue to serve the market and they have established a name for the company among general consumers and healthcare professionals right across the entire spectrum.

Most important aspect of the last half year's performance has been the continued uptick in the Indian Spinning Industry. The Indian Spinning Industry has Seen an unprecedented hike in

cotton prices which coupled with a supply demand gap has created an enormous amount of opportunity for the spinning industry right through the last three quarters. This increased demand is also an outcome of the banning of cotton in the Xinjiang Province in China and other global factors which have resulted in robust results from the Spinning Industry in general and your company being one of the leaders in Spinning Industry has actually capitalized on the positive notes of the Spinning Industry.

The lamination division which is a parent division for our Quick Dry range of products has also bounced back after Q1 and has done exceedingly well in terms of market performance in Q2. The future of this division also looks higher as consumer demand continues to surge. An important aspect of our portfolio is the products we supply to the Indian army. At the end of the last financial year, we had won two orders from the Ministry of Defense. One for 70 liters RUCKSACK bags and the other for HAVERSACK bags of the **CBRN** variety. This was worth 13.62 Crores and 27.28 Crores respectively. The first order has already been executed successfully and the second order is being executed and will be over by Q3 of this year. We are grateful that the Indian Armed Forces trusts us for the highest standards and execution capabilities, and we have been agile enough to deliver the requirements on time. Our association with the Defense Forces has been a very longstanding one wherein we have been their first choice of supplier for NBC suits etc., in the past. While orders for the defense come on a tender basis, this has been a dedicated line of business for us since 2017 and our varied range of products ensures that there is an ongoing project with the defense at all times.

On another note, coating division continues to be optimistic in its growth considering the bans imposed on the use of flex material for banners in signage applications, in the state of Kerala. The COVID situation did have an impact on this business but now we are seeing a bounce back in the demand for such products in the month and time period to come.

Overall, I would say the existing segments of the business continue to do extremely well. In this year, we have also added a highly technical insulation wadding business which is a non-woven product which is key to our thought process of becoming a leading player in the high-altitude clothing and high-altitude clothing accessories product range which is required by the Indian army in huge quantities. We are also looking at entering into significant growth in new areas like seamless garments in which some amount of capacity has been already put in place and will be commissioned in Q4 at a pet case to further scale up in subsequent months. Overall, it has been a balanced and sustainable growth in our Technical Textiles Business supported by a very robust spinning industry and as the impact of the pandemic subsides, logistics and markets open up. We expect a sustained growth in the industry.

Let me just talk about a brief background of the company. We have started spinning mills unit in 1989 and they have grown steadily ever since the spinning business expanded to about 90,000 spindles at peak capacity and post our demerger, we are currently at 52,000 spindles spinning capacity. While spinning has been our traditional business, our strategic focus is in the area of technical textiles where we have built a range of products based on technology and innovation.

In 2006, we started the Lamination division and over the subsequent years, we have commenced garments, processing, coating and related activities, each one specializing in certain technologies for high end products which are all based on research and innovation. We also backed up the spinning division and other power consumers by several windmills which generate clean renewable energy for captive use.

Today, our product portfolio is a mix of various products which cater to a diverse range of application from home textiles, health and childcare, defense, apparel accessories and so on and so forth. Our diversified product portfolio reflects our vision to be a leader in Technical Textiles Industry, driven by innovation. We have multiple brands that are in the market including Quick Dry, which is a product segment creator in its area, Quick Fit, Q-Club, Paw Paw, among others. The company has also taken up to doing significant amount of business on online and digital front in keeping with the preference of the global consumers. Our technical capabilities and know-how, coupled with our consumer-centric approach enables to innovate new products and we innovate with an emphasis on sustainability and being environmentally friendly.

Now, turning to our financial performance; Q2 FY2022, we reported Rs.114.27 Crores in revenues during Q2 FY2022, a 37.11% year-on-year rise. Growth was driven primarily by a recovery in the markets post the COVID related lockdowns and a robust spinning industry.

Our EBITDA for the quarter stands at Rs.18.07 Crores, increasing 65.67% year-on-year. The EBITDA margin is 15.81%, an improvement of 273 BPS. Improved internal operating efficiencies offset the volatility in raw material prices boosting margins.

Our net profit during this quarter is Rs.8.28 Crores as against Rs.2.23 Crores in Q2 of FY2021. The net profit margin stood at 7.24%, up by 457 BPS. The EPS for this quarter is Rs. 6.34. For the half year, we have reported Rs. 200.01 Crores in revenues, a 48.54% year-on-year rise.

Growth was driven primarily by a recovery in spinning business and overall market condition post the COVID related lockdowns. Our EBITDA for this period stands at 31.45 Crores increasing 58.25% year-on-year. The EBITDA margin is 15.72% an improvement of 96 BPS, better internal operating efficiencies helped offset the impact of raw material prices leading to better margin.

Our net profit during these six months is Rs. 13.32 Crores as against 3.18 Crores in the corresponding period of FY2021. The net profit margin stood at 6.66%, up by 430 BPS. The EPS for this period is Rs.10.08.

Thank you. That is all from our side and now we are now open to take questions.

**Moderator:**

Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Zaki Nasser, Individual Investor. Please go ahead.

**Zaki Nasser:** Mr. Sundararaman, congrats on a very, very strong set of quarterly numbers. As you mentioned yourself that this has been unprecedented time in spinning and I think even now our large part of our turnover comes from spinning, so how do you expect the cycle to pan out in the future and I mean how would this affect I mean by the end of the year what would you expect Shiva's spinning versus technical textile contributions to be? Thank you.

**S K Sundararaman:** Thank you Mr. Nasser. You were absolutely spot on. In the previous year, the spinning versus non-spinning ratio was almost about 60% to 40%, 40% being non-spinning and spinning being over 60%. The current number of the spinning is about 75% and the non-spinning is about 25%. That is essentially the non-spinning has not decreased in terms of numbers, in terms of coating and processing we continue to do what we did last year in terms of our garments for military and lamination I would say we have actually grown to the tune of almost 20% but the fact that the spinning is extremely robust is showing that it is having a higher percentage of contribution to the overall turnover of the company. I expect that this will be the case right through this entire year, so even the full year would be like that I mean while generally spinning industry you do not need to venture to give prediction for six months. I would say that industry seems to be stable and robust. So, while we are expecting something like a 20%-25% increase at annualized level on our non-technical textile this must be in pure numbers. In terms of percentage terms is going to be lower contribution by non-spinning sector for this year just because the spinning has become incredibly robust. Going forward, as I had mentioned in previous occasions, we are looking at not less than 55% contribution on technical textiles or non-spinning segment to our revenues, now for that to happen a some amount of capacity augmentation also has to happen as well as looking at some new areas of opportunities which is what we are currently doing at this point of time, so all investments that we are doing which we have done in this year have actually gone into the non-spinning sector.

**Zaki Nasser:** Yes, Sir and as you mentioned you expect the spinning to remain robust for the balance of the year, would you also venture out to say that the margins also will be sustained during the next two quarter?

**S K Sundararaman:** I can broadly say that it seems to be that way for Q3 but Q4 is anybody's guess, now there are slightly times of the cotton sentiments weakening which will have impact on yarn, but overall supply and demand still continues to be a challenge, so things will be good. Q3 very similar to previous but Q4 I would not have a guess at this stage honestly.

**Zaki Nasser:** Thank you Sir and best wishes for the company. Thank you.

**Moderator:** Thank you. The next question is from the line of Kush Gangar from Care Portfolio Managers. Please go ahead.

**Kush Gangar:** I wanted to know the contribution of defense orders in Q2?

**C Krishnakumar:** Actually, the defense order in Q1 is Rs. 8 Crores and Q2 is nil, actually production was happened only this execution billing will happen on third quarter.

- Kush Gangar:** Q2 contribution for defense is zero?
- S K Sundararaman:** Yes. On number basis I would say zero, what happens is that the typical time it takes for you to say that this product is ready and for the CVR and then because we have CVR and products for the testing to go through various labs before they give you the instruction is is about 45 days. We are expecting that the bulk of this product both what's manufactured in Q2 as well as Q3 would go out in Q3 or may be little bit go on Q4.
- Kush Gangar:** So, 27 Crores the pending order impact should come in Q3, right Sir?
- S K Sundararaman:** No, you are right, now 27 Crores I would say at least about 20 Crores should come in Q3, 7 Crores might go in Q4.
- Kush Gangar:** Okay, can you share some details of tenders which you have bid for the defense sector over the last two quarters to three quarters and the results where you are waiting the results?
- S K Sundararaman:** We have bid for close to about 150 Crores worth of tenders for various items that predominantly are in the high-altitude mountain clothing space. The Indian Army has got tender out for five-year period; this is the first time that they are experimenting with it. It comes to the caveat that the product has to pass User trials so all those who have bid for those we keep trying going on and we will know the results by March-April. I would also like to bring to your attention that in addition to new tenders there is always a scope for a 50% repeat order clause for products already executed, so that also seems to be in the pipeline, so our defense pipeline seems to be quite robust but even if we are looking at 1/3<sup>rd</sup> success rate on tenders space, we should have something north of 50 Crores in terms of defense space over the next year, if it is confirmed.
- Kush Gangar:** Okay, so this 150 Crores tender would be various different tenders, or it is a single tender?
- S K Sundararaman:** Different tender.
- Kush Gangar:** Different tender okay but most of them for high altitude range only?
- S K Sundararaman:** That is right.
- Kush Gangar:** 50% repeat order which you are expected is in pipeline, is the NBC suits that we deliver, are you referring to that?
- S K Sundararaman:** No, it is the NBC HAVERSACK that the 27 Crores order is going on as well as the previous 70-liter RUCKSACK order.
- Kush Gangar:** Okay. That is helpful and if you can share some details you mentioned but your voice was breaking regarding the capex for the processing division if you can share some details, you mentioned it would start in Q4 I guess, the 20 Crores capex that we are under taking, can you share some details with regard to the segment how the funding be done asset turns any details over there?

**S K Sundararaman:** What we have done is here we have invested in two areas. One is we have invested strategic investment in making that high insulation batting for winter clothing which is a key component in trying to compete with for tenders in the defense space, so that is the smaller investment. Keeping this apart, we have placed order for buildings and equipments to the tune of close to 18 Crores and equipment is in various stages of arriving at the factory and commissioning will happen between February-March of Q4. Most of this investment has gone into creating very specialized athleisure fabric as well as some forays has been made into creating seamless garments. We believe that functional textiles are the way to go forward where we can look at large level of scale and where there are some amounts of complementary nature to the product that we are already making for sports towels and for the defense application and so on and so forth. This 18 Crores is going into what I would call athleisure segment, significant portion into seamless garments, the concept is that given that the PLI scheme has been announced for manmade fibres and technical textile and given that there are several incentives coming out. We are trying to understand where we would like to do a larger investment over the next 24 months and these 18 Crores have been put towards that. This money has come purely from internal accruals because the cash flow for this year has been very good, so in addition to our principal term loan repayment we have actually done this entire investment through internal accruals.

**Kush Gangar:** Okay and you mentioned about the athleisure segment, so our focus is towards B2C or B2B we will be looking at B2B or B2C and this is a trial where you are testing a few segments, so when do you expect some kind of material contribution going forward from the segment because it is new segment, it may take time, so what is your assessment currently?

**S K Sundararaman:** Firstly, in terms of we find the segment quite interesting and we do not want to for various reasons name customers but we almost have a 100% assured take off of the entire investment that is been made into this 18 Crores through customer who are looking at giving four months to five months contracts from the time we start, so essentially they will start bearing fruits right from April of 2022. It was quite a promising thing that customers ready to underwrite that is a potential of this particular segment and which prompted us to go here. To answer your question, on B2B or B2C looking at B2B only because at this point of time and definitely over the next few years, our focus would be to become the larger players in this segment and that would essentially be about working with other established brands than trying to create a brand for ourselves.

**Kush Gangar:** Right and what can be your contribution at 100% utilization?

**S K Sundararaman:** This investment would probably be in the range of about 25 Crores turnover at the topline level on an annualized basis, but I would say it is too early for us to actually comment more on the numbers.

**Kush Gangar:** Sure, and with respect to the jump in other expenses the other expenses increase significantly, what has been the primary reason for that rise?



- C Krishnakumar:** This is other expenses is including manufacturing expenses for other manufacturing expense. Last quarter we have already mentioned that defense products this HAVERSACK products also we have done almost 10 Crores initial stock but with the reason for increase in other expenses it is not the purely other fixed expenses, it is a variable component for consumption of packing material and non-raw material items, chemicals like that to the extent that the price has increased.
- Kush Gangar:** Okay and with respect to the spinning side there would be some element of low cost inventory which would have helped us in improving our margins, do we have inventory for current Q3 partly do we have that inventory or the new inventory would be higher or so should that margins drop from the Q2 levels going ahead because the correct season cotton prices are significantly higher?
- S K Sundararaman:** I know but actually even in Q2, Shiva Tex was not having this habit of having long inventory. We have actually done this performance irrespective of the fact that we have only hold about 50 days to 55 days at maximum and many times as low as 35 days. The results have come because there has been a mix of high value items in terms of organic and other sustainable yarns which we supply to especially customers which give a better yield compared to conventional products. So, with the same logic I can say that the impact would not be much in Q3, Q3 would not be much different or rather the impact of not being able to hold stock long or inventory long would not impact us as a company.
- Kush Gangar:** Got it. Thank you, Sir.
- Moderator:** Thank you. The next question is from the line of Jinisha Chheda from Spark Capital. Please go ahead.
- Jinisha Chheda:** Good afternoon. I just wanted to understand long-term perspective three years to five years as you have mentioned that 55% of revenue will come from non-spinning business and 45% will be from the spinning business, so can you give us ballpark break up of what are the growth estimates for each of the segment and how the margin would move?
- S K Sundararaman:** Sometimes giving a five year estimate it is very, very long call but I can give you what we are looking at over the next three years that is an indication of where the company is moving. We have approximately Rs.280 Crores in terms of spinning in normal times I expect that this year we would definitely cross that because of the vibrant yarn prices that we have seen. So, even if you take Rs. 300 Crores as a ballpark in terms of spinning turnover on a long-term basis assuming that there is no capacity expansion over here. Our technical textile unit which are basically lamination, the garmenting division, the coating division do approximately about Rs.150 Crores of turnover at this point of time. Now, our capacity program over the next twenty-four month should take us to an additional Rs.160 Crores of revenues on a conservative basis by the end of next twenty-four months. We expect in that time the conventional business of lamination coating military to also grow from this Rs.150 Crores that we have right now to about Rs.200 Crores scale. In total in anywhere between twenty-four months probably more idealistically at 30 months to 36 month time period, we would look at an annualized revenue for the company of

around Rs.650 Crores of which not less than Rs.350 Crores would come from non-spinning business and those capex plans are on like said the initial testing has happened we expect the major rollout to happen from about July 2022 and that is where we are headed over the next three years.

**Jinisha Chheda:** Okay, and on the margin side what is the breakup currently and how it is likely to shape up on the segmental basis?

**S K Sundararaman:** On a segmental basis that is a very detailed answers which we will be for you on a different thing. But what we expect is that given that most of the overheads would be consumed, and the growth is going to be in technical textile division. We expect that the EBITDA percentage would improve anywhere from 4% to 8% from where we are right now.

**Jinisha Chheda:** Okay, in the technical textile like you said one order for us for seamless garments which you just mentioned apart from that what are key growth drivers in the technical textile side other than the army division and the seamless division which you just mentioned?

**S K Sundararaman:** The oldest technical textile division which is also a B2C product for the company is our laminated product division which is for the flagship which is our incontinence mat call Quickdry. Now, that business is approximately Rs.40 Crores from year-on-year basis in 2020 it suffered a bit because of market closure in 2021 and while the first quarter of this year was bad because of lock down there was a very strong bounce back in Q2 and we expect that we will probably do about 20% growth even on our 2019 – 2020 figures. The growth in that business is quite robust and we expect that we will be able to give a 20, 25% year-on-year growth in that area. The coating business of the company which essentially focuses on artist canvas and digital canvas that is what we have been doing for many years is supplemented by business opportunities which are replacement of select banners by biodegradable cotton banners which is being implemented on the order of court and from state government most notably in the state of Kerala. Now that division is a little subdued during COVID because there is not much of demand for advertising, I am talking about physical print on the highways kind of advertising. But we expect that, that will also change once these current sentiments of people change and that everybody seems to be coming post corona. The army which is specialized division that continues to grow we have expanded our product offerings beyond the conventional NBC and the bags we used to do, to having now supplied for trial basis the cold weather clothing, the sleeping bags, the gloves, and few other related products to the army. We are also in the process of sourcing technology and army related areas from associates from overseas and overall, we think that we will continue to be one of the strong technical textile suppliers to the Indian army and as well we have a smaller portion for many to come. So, that is broadly how our portfolio is here and the new addition of seamless garments would be a new area where we would be getting into.

**Jinisha Chheda:** Okay, just last couple of questions, for the replacement of banner business in Kerala do you have any orders in hand right now?

- S K Sundararaman:** It happens on a continuous basis, Kerala we used to supply close to about Rs.1.1 Crores worth of material into various distributors into Kerala, currently it is down to about 30 lakhs to 40 lakhs like I said subdued during COVID, but we do continue to supply on a month-on-month basis.
- Jinisha Chheda:** And what will be the present order in hand overall?
- S K Sundararaman:** In which division?
- Jinisha Chheda:** Including the army division?
- S K Sundararaman:** The army like I was explaining to the previous gentlemen, the army we have got Rs.27 Crores of order for the rucksack is being executed which we should close by third quarter, and we expect repeat orders coming in by the fourth quarter as well as the returns of some of the other tenders coming inside. It is the test-based business which is very time bound so you do not have long order pipelines for the army you might get a Rs.50 Crores order but you have to execute it within six months and the thing is we are working them across range of products we are very comfortable that there will not be much gap in the production process, and we get along.
- Jinisha Chheda:** Okay, thank you so much.
- Moderator:** Thank you. The next question is from the line of Vipul Shah from Shubh Mangal Investment. Please go ahead.
- Vipul Shah:** Good afternoon. Congratulations for good set of numbers. My first question is due to high cotton prices was there any inventory gain in the last quarter and if that is yes, can you quantify it?
- S K Sundararaman:** Like I was explaining earlier Shiva Texyarn has a policy does hold inventory for more than 40 days, sometimes it goes up to 50 days, but we try not to hold it, used to be a habit that mills like us would hold long inventories for up to six months from end of February till October. But in current circumstances we do not hold inventory, so whatever gains that you see or whatever results you are seeing are based upon normal inventory our current inventory continues to be at the same level..
- Vipul Shah:** And secondly can you comment on the margins in the defence business are they higher than all other businesses?
- S K Sundararaman:** I would definitely say the margins in general in the defence business, I would not like to generalize there are some this side but in general the margins are definitely higher, definitely I would say EBITDA of 25% to 28% is the norms in those businesses. I would not like to generalize that.
- Vipul Shah:** Okay and lastly what is our R&D spend annually?
- S K Sundararaman:** Our R&D spend annually would be somewhere about Rs.2 Crores to Rs.3 Crores but it is difficult to differentiate it per se R&D spend because the R&D does not happen say in external

lab it happens online so most of it goes into people cost, into consulting cost, into getting materials but we do not show that, that is a separate thing it is an ongoing program and many of the R&D initiatives are taken up by people who are actually the line managers in those respective businesses.

**Vipul Shah:** Lastly, you said you expect Rs.650 Crores of turnover over twenty-six months. So, to reach there what kind of cumulative capex we will be incurring?

**S K Sundararaman:** We are looking at the capex of about Rs.100 Crores to Rs.110 Crores that will happen over the next twenty-four months and which is why I said by the time we are talking about from twenty-four months to thirty six months onwards we are looking at the turnover of about Rs.650 Crores for the company.

**Vipul Shah:** All that Rs.100 Crores will be generated internally; we will not take any more debt?

**S K Sundararaman:** In proportion it will be generated internally we are still working out the program. But that is already been invested in the last one year in terms of that Rs.18 Crores has been generated internally.

**Vipul Shah:** Okay, all the best.

**Moderator:** Thank you. The next question is from the line of Aniket Redkar an individual Investor. Please go ahead.

**Aniket Redkar:** Good afternoon. I have couple of questions; can you throw some light on quick dry and Pawpaw in terms of the revenue EBITDA margin and profit margin?

**S K Sundararaman:** In terms of revenues like I said the first quarter was very bad and I am talking quick dry and pawpaw as a whole because we look at it as one segment as daily product segments and it goes out into same marketing channel. So, Q1 was bad Q2 is good so on a month-on-month basis in Q2 we are getting a revenue of about purely on modern trade and general trade without any of the specialised exports and other things which we do we are getting a run rate of about Rs.4.5 Crores on a monthly basis. So, if I extrapolate that on a twelve month basis I am looking at a comfortable 20 to 25% growth if I were to look at 2019 – 2020 full year figures, last year was complete wash out, not really complete wash out but not a comparable number, so if we are to compare 2019 -2020 then 2021 – 2022 would be at least at 25% growth if I were to extrapolate on a year-on-year basis it might be lower because the Q1 was back. But in terms of revenue. EBITDA margins should be in the range of 13% to 14%.

**Aniket Redkar:** Okay, and this overall all the manufacturing companies are facing the raw material price there is increase in the raw material prices also. What are the measures being taken to control such raw material prices and are we passing this raw material price hike to end consumer?

**S K Sundararaman:** We operate in multiple baskets so if I were to talk about spinning you are aware that a bit of hue & cry in the market about yarn prices going up so necessarily, we have to pass on the cost of raw material on to the end consumers. But on our B2C business which is our quick dry and pawpaw business we have not actually significant there are some hikes that we have done more from a product refreshment strategy perspective, but we should not really look at passing on raw material cost at this point of time we look at it as an advantage of growth in market share than anything else. So, we have not at this point passed on raw material cost to the market but what happens in the future needs to be seen. In some of the other businesses which are B2B like coating etc., we have passed it on for example you do not have an option of passing on any little cost which is why we actually work on a system of procuring almost all the raw material for the entire six months production process in one go just to mitigate any such risks and we make sure we have enough adequate capital to do so. It is a mix and match depending on the particular product segment that we touch.

**Aniket Redkar:** Okay, got it. How do you see the revenue from PPE kits and the masks as we see the economy is recovering from this pandemic and what are your views on this product line?

**S K Sundararaman:** The PPE opportunity was something that has used to an advantage by us last year when there was no other business happening. So, we had a robust PPE business that happened during the first three quarters probably even the fourth quarter of last year. In terms of our coveralls as well our masks. But today as the pandemic continues to go down the appetite for companies or hospital and the health care sector to pick up PPE of the level-IV quality is coming down people are accepting a level -II, level- III tier products which they think it is enough to protect them against the virus. In the area of masks multiple manufacturers have come out and there is a growing propensity towards decorative than performance mask, performance mask of course continue to be in the health care industry. But a huge amount of capex went into building capacity right across the country by these people in creating N95 masks. So, for me this area is very crowded right now and it is not a long-term play for Shiva Texyarn because we like to be in areas where there is a technology barrier for other people to play in respective areas. So, while we continue to be here and we have had a lot of learning, good results and a good amount of exposure to the market in terms of brand visibility of the company. I do not think that is going to be a long-term game for Shiva Texyarn unless something new really comes in.

**Moderator:** Thank you. The next question is from the line of Gaurav from Sarath Capital Management. Please go ahead.

**Gaurav:** Thank you for giving me this opportunity and congratulations on a very good set of numbers. Just wanted to get a broad sense of first of all into de-merged part of spinning business couple of years back there are no plans to add any spinning capacities given the favourable situation you are being, right?

**S K Sundararaman:** Yes, Mr. Gaurav, the spinning industry is going through an unprecedented uptick but having been in this industry for the last thirty years we do not, unless there is going to be a technology evolution in spinning for example Vortex for cotton etc., etc., which would necessitate

investment, and which would probably also have some meaning of having a competitive edge for some time. Investing on spinning is not on the card that is what is we are concerned. There are lot more growth opportunities in technical textiles and related areas for us.

**Gaurav:** Okay, now coming on to your technical textiles added things like you said out of this Rs.650 Crores that you are going to be doing in the next thirty-six months; Rs.350 Crores would come out of your technical textiles, right. So, Rs.350 Crores what percentage of that is assumed would be the B2C side and what percentage would be the B2B side?

**S K Sundararaman:** In that I would say about Rs.100 Crores would be maximum from a B2C side which will essentially be based upon our quick dry business which will also have some amount of the other product ranges that will be pushed through the sales channels. But not more than Rs.100 Crores, Rs.200 Crores may be even little higher but Rs.210 Crores approximately would come from the B2B sector.

**Gaurav:** And why are like you said you could be doing an annualized Rs.50 Crores in your quick dry business this year and since this is a B2C business why our margins at 13 to 14% why are not they higher than, because that is a broad range that you are doing consolidated as an entity?

**S K Sundararaman:** True but I will just answer one of your previous that asking about the price increase being passed on etc., etc. Today we are trying to consolidate penetration into markets and one of the tools for that is to not increase prices. Post COVID most smaller manufacturers have had to go through, or they have been forced to upward revise their prices because the raw material sourcing and other operating efficiencies had been really pressurized. So, at this point strategically keeping at this level just to make sure that we have better penetration and push and at some point, in future in conjunction with a more deeper brand penetration we would definitely look at taking that EBITDA margin close to about 18 percentage.

**Gaurav:** But are there like to like players in this segment or since you said you want to be in areas where there are technological barriers so anyone else doing this diapers and quick dry sheets?

**S K Sundararaman:** There are but there is nobody larger than us. I would say the bigger challenge for a company like Shiva Tex quick dry division is from other baby products manufacturers who are in the clothing sector who also buy our dry sheets as one of their product ranges they have the size and the distributions network to challenge what we do. We continue to dominate the reusable incontinent segment in this market. So, they are coming here, and we are actually seeing how we can go little bit into their territory and hence augment. But they are the challenge pure play standalone reusable diaper manufacturers or laminate manufacturers are not a challenge for us.

**Gaurav:** Okay, and this last bit is this Rs.210 Crores that you said would come from the B2B side, how big an opportunity is that do you see yourself in the pure play at some point in time when this technical textiles that becomes large enough would consider de-merging it and making your company entirely technical textile player and what is the opportunity landscape there where can you see yourself in five to ten years is the broad question?

- S K Sundararaman:** In what we do today in our non-spinning business that we do today, the lamination, coating or the other. We are expecting conservatively over the next twenty-four months it will take to about Rs.200 Crores like I told you and we see that actually going into 2X or 3X of that over a period of time over the next five, six, seven years whatever. The new area that we are entering into one of the top processes of the company is that we are looking for areas which are niche where we have to be either the first or we have to be among the top three players in that segment otherwise we feel that there is absolutely no play in that area. We will be seeing that some area developing right now like our Rs.18 Crores of capacity put in has already been underwritten by customers even before production started for about four to five months from the time production starts. We see a great uptake here we want to be part of that game; we think that there is lot of value add and we see that as a acute segment like that really going to run into Rs.1000s of Crores both within the country as well as for the export market. So, the whole thought process is to identify areas where there is nobody else some amount of technology barrier exists and then be among the top three in that area. That is our focus where that is where we are going whether would de-merge from spinning at some point possibly yes, but that is in the future.
- Gaurav:** So, this Rs.18 Crores is in what category of technical textiles?
- S K Sundararaman:** The Rs.18 Crores is purely in the seamless and Athleisure garment space. I would say it goes from the technical textile aspect more into function garments, but we are still grouping as technical textiles from the customers view.
- Gaurav:** These are like one of those quick dry vests that sporting brands, right something that?
- S K Sundararaman:** Well, seeing with garments, the garments that do not have any stitches. So, it can be something as simple as inner wear lingerie to complex suits that go from neck to ankle in a series of applications.
- Gaurav:** This business that you are promised by your customer this is domestic or it is like sports?
- S K Sundararaman:** I do not like to comment at this point of time.
- Gaurav:** No issues. Thank you so much for answering my questions. Thank you.
- Moderator:** Thank you. Ladies and gentlemen, we will take one last question from the line of Anshul Mittal from Care Portfolio managers. Please go ahead.
- Anshul Mittal:** I just wanted to ask that since last few years our pay-out has been steadily good within pay out policy. So, considering the capex plan that we have for Rs.100 Crore to Rs.150 Crores for next two years are we planning to continue the same?
- S K Sundararaman:** I am sorry; I did not get your question?

- Anshul Mittal:** I just wanted to know that since last few years our dividend payout policy has been fairly good. So, post the capex which we have of Rs.100 Crores to Rs.150 Crores are we planning to maintain the same going forward?
- S K Sundararaman:** In all probabilities yes, I would not like to take board decision that we cannot either I would not like to comment upon, but I do not think there is going to any change to the pay out, dividend pay-out policy at least for the next two three years any which at this point of time.
- Anshul Mittal:** Okay, thank you. That is great and secondly, I wanted to know the value and volume growth breakup for the quarter?
- S K Sundararaman:** Can you be little more specific on that?
- Anshul Mittal:** Volume and value growth break up between the growths which we have seen this quarter. So, has it been mainly towards pricing or towards the volume side?
- S K Sundararaman:** I would say there has been a good amount based upon pricing like I said that the spinning has been the driver for this quarter in terms of our topline and that driver has also while there has been definitely a growth in the previous quarter pricing has also definitely played the part.
- Anshul Mittal:** Okay, that is great and what is the current status of yarn pricing as you said the cotton yarn prices have increasing in last one or two months. So, probably what is the status for yarn pricing do you have estimate for next 45 days or quarter three so we can understand what is basically growth or pricing growth which we can expect going forward?
- S K Sundararaman:** The prices for cotton yarn had picked up in the month of October; the results of Q2 are not impacted by that. We have seen prices going to a historically high in terms of Shankar 6 cotton to about Rs.72000 a candy that is coming down now it is about Rs.67000 today with increased arrivals into the markets we expect that the cotton prices will be definitely muted and as also yarn prices will come down. But I am comparing this to the month of October if I were to look at the previous quarter; I would say you will look at very comparable figures of Q3 to Q2. Cotton is something where we do not generally give a long-term outlook. So, Q4 while I am sure that the industry will consider being stable given supply advantages what happening, favourable supply demand equation. In terms of really hard prices, I do not know I think we have reached the peak, but I could be mistaken.
- Anshul Mittal:** Okay, understood and one more thing as we have seen rise in other expenses recently. So, I just wanted to understand the power and fuel cost while we are planning to set up wind mill as well as other renewable facility. So, do we expect a reduction in power and fuel cost in near-term?
- S K Sundararaman:** We will not have a reduction in cost I would say it is more towards maintenance. If you see in the recent couple of months we buy power from three places, we buy power from the electricity grid; we consume power from our own windmill generations which used to be approximately to 60 to 70% of our total power requirement and the balance we used to take from the third party power



exchange. Since we repaired some of our wind mills last year and since we are actually having a spike in third party power prices particularly because of this coal shortage issues. The company has decided that we will also now enter into an agreement with LK distributors, a related company to pick up their windmill power which is about 50 lakh units on favourable terms. So, the outcome of all that is your power cost would be the same it would not go up that is the strategy which we are following. We have already had one of the lowest power costs in the spinning industry given that fact that we have invested a lot in windmills. So, we expect that we will continue the same.

**Anshul Mittal:** Okay, understood. Thank you. That is, it from my end.

**Moderator:** Thank you. Ladies and gentlemen, that was the last question. I would now like to hand the conference over to Dr. S. K. Sundararaman for closing comments. Thank you and over to you, sir!

**S K Sundararaman:** Thank you very much. Firstly, I thank the entire team of Shiva Texyarn for their untiring efforts and the hard work and dedication. I thank my CFO Mr. Krishnakumar who is on the call and our team from Bridge IR. Friends, it is the people who drive the company forward and make it resilient to upheaval such as pandemic and we have some wonderful people working for us who would be the drivers of the growth for tomorrow. I thank all of them and I also thank and appreciate all of you for participating in the conference call. Please do get in touch with our Investor Relations team if you have any further questions. Thank you very much.

**Moderator:** Thank you. Ladies and gentlemen, on behalf of Shiva Texyarn Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.