SUTLEJ TEXTILES AND INDUSTRIES LIMITED

Lotus Corporate Park, 'E' Wing, 5th/6th Floor,
185/A, Graham Firth Compound, Near Jay Coach,
Goregaon (East), Mumbai 400 063, INDIA.
Phone : (022) 4219 8800/6122 8989 Fax (022) 42198830
E-mail : info@sutlejtextiles.com Website: www.sutlejtextiles.com
CIN. : L17124RJ2005PLC020927

17th May, 2022

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

Dear Sir / Madam,

Subject: Transcript - Q4 & FY 2022

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, kindly find enclosed a transcript of the earnings conference call for the quarter and year ended 31st March, 2022 which was held on Wednesday, 11th May, 2022. The same is also available on the website of the Company i.e. www.sutlejtextiles.com.

The conference call held on 11th May, 2022, as per the Transcript enclosed incorporates mainly the highlights of financial results upto 31st March, 2022, and other related information which is already in public domain and / or made available / uploaded on the Company's website.

Please take the same on record.

Thanking you

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

Manoj Contractor
Company Secretary and Compliance Officer

Encl: a/a

SUTLEJ TEXTILES AND INDUSTRIES LTD. Bhawanimandi (RAJ.)

"Sutlej Textiles and Industries Ltd. Q4 & FY22 Earnings Conference Call"

May 11, 2022

MANAGEMENT:

MR. UPDEEP SINGH – PRESIDENT AND CHIEF EXECUTIVE OFFICER, SUTLEJ TEXTILES AND INDUSTRIES LTD.

MR. BIPEEN VALAME – WHOLE TIME DIRECTOR AND CHIEF FINANCIAL OFFICER, SUTLEJ TEXTILES AND INDUSTRIES LTD.

Moderator: Ladies and gentlemen, good day and welcome to the Sutlej Textiles and Industries Ltd. Q4 and FY22 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal 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 Mr. Bipeen Valame – Whole Time Director and CFO. Thank you and over to you, sir.

Bipeen Valame: Good afternoon, everyone, and welcome to the earnings conference call of Sutlej Textiles and Industries Ltd. for the fourth quarter and full year FY22. I hope all of you and your families are in good health. Joining me on the call today is Mr. Updeep Singh – President and CEO of Sutlej Textiles and Industries Ltd. and Stellar IR Advisors, our investor relations team. We have already uploaded the investor presentation and hope everybody had an opportunity to go through the same.

Let me take you through the financial highlights after which I request Shri Updeep ji to run you through the industry and business highlights for the quarter and full year FY22.

The year gone by saw the impact of COVID in first quarter of FY22. Despite this, Indian economy began bouncing back from the pandemic and Indian yarn players experienced a strong demand amid healthy exports, pent-up demand in domestic market with receding impact of COVID-19. Global demand also saw a renewed buoyancy and at Sutlej backed by healthy sales growth both in domestic and export market with better realization in demand, capacity utilization stood at 94% to 95% during quarter 4 FY22.

Coming to the income statement:

Our consolidated total income for the financial year 2022 was at Rs. 3,112 crores, which has jumped up 63% against Rs. 1,915 crores for the previous financial year. In Q4 FY22, the consolidated total income was Rs. 901 crores, which is 31% increase year-on-year basis. We attribute the performance in the last quarter to overall improvement in our product mix, better efficiencies, better geographical reach with positive economics sentiments as well as improving global trade not withstanding geopolitical situation and challenges.

We saw a significant increase in exports and for FY22 the total exports stood at around Rs. 1,300 crores against Rs. 660 crores in FY21. For FY22, our consolidated EBITDA stood at Rs. 414 crores, which is 13.31% EBITDA margin, 624 basis points higher than the previous year where it was 7.1% with total amount of Rs. 135 crores. This growth of EBITDA was primarily driven by volume and higher realization and better product mix. For quarter 4 FY22, our EBITDA was Rs. 133 crores, which translated into margin of 14.7% which is 282 basis points higher than the previous year, which was at 11.9%.

On profitability aside, for the full year, our consolidated PAT was around Rs. 150 crores against loss of Rs. 4 crores in the previous year. For the quarter, we earned net profit of Rs. 52 crores, which is higher by 86% year-on-year basis.

The board has declared dividend of Rs. 1.85 per share, which is around 20% of PAT. As you also know, the board has approved setting up of a greenfield project of 89,184 spindles comprising of cotton mélange yarn and PC grey yarn along with dye house at Jammu & Kashmir with estimated project cost of Rs. 914 crores, which will be funded with a mix of internal accruals and debt and will be implemented by around Q4 FY25. Shri Updeep Ji, President and CEO will update you about the project.

We also got long-term credit rating of A+ by India Ratings with outlook of stable signifying adequate degree of safety regarding timely servicing of financial obligation and short-term and bank funding of A1+ by India Ratings signifying very strong degree of safety regarding timely payment of financial obligations.

On balance sheet front, our total debt saw a marginal decrease of Rs. 35 crores to Rs. 942 crores at the end of the year. This incremental debt was on account of increase in working capital, which was mainly on account of higher raw material costs attributable to cotton. The debt to equity ratio has continued to remain below 1.0 since the last few years and has improved further to 0.86x in FY22. With more than 25% headroom still left in our working capital facilities, we believe we are in a comfortable position as far as liquidity is concerned. That is all from my side.

Now I would request Shri Updeep Ji to share business outlook and industry scenario and then we can open the floor to question and answers. Over to Shri Updeep Ji. Thank you.

Updeep Singh: A very good afternoon to all of you and thank you for taking time off and joining this investor call for Sutlej Textiles and Industries Ltd.

Let me begin the call by iterating our outlook on industry. We believe that there are some very positive tailwinds for textile sector in spite of the fact that cotton is riding high. With the pandemic having altered global supply chains for textile companies and more importantly given the current geopolitical situation in the world, we are witnessing a gradual shift from single source country and efforts targeted at diversifying the supply chain. Since India's textile and apparel value chain has an underlying strength in form of country being huge source of raw materials, India being one of the largest producers of raw cotton, presence across value chain, quality of products and foresight phenomenon is being considered as a huge opportunity for Indian textile industry. Indian spinners and home textile players are being considered as the key beneficiaries of this favorable trend. With the second largest spindle capacity in the world, Indian spinners are seeing full utilization of their capacities, superior margins as yarn business remains strong. I am talking basically in terms of dyed yarns, blend of synthetic and cotton dyed yarns.

The unprecedented growth and improvement in profitability over the last few quarters has been on account of China Plus One policy and US ban on Chinese textile products mad from Xinjiang cotton. With expansion in capacity, consolidation and export demand for Indian yarn is still at a reasonably good level, Indian spinning business is witnessing growth. In this, I would say that Government of India has also played a role.

The policies of Government of India with PLI with mega textile park and overall impetus to the industry, this industry is bound to grow with, at the moment on the grey yarn, I understand there are certain pressures. Sutlej Textiles being a trusted brand in yarn segment has been able to capitalize on these opportunities, which is evident from the results. However, we are not present in the grey products segment in a big way, which is needed to compliment to dyed and mélange product offering.

In view of increasing demand of various blends in terms of man-made fiber and cotton, polyester, viscose across multiple categories of end use, there is a market potential for grey blended yarns, both in domestic and export market. This has given us confidence to launch a greenfield project of almost 89,000 spindles comprising of cotton and blended mélange yarns and PC grey blended yarns along with a dye house in Jammu & Kashmir at an estimated cost of Rs. 914 crores, which will be implemented around Q4 for the financial year 2025. The project will be funded through internal accruals and debt.

Any more questions we will be able to take in our question-and-answer session and we believe that with all these positives going for us, Sutlej Textiles is well placed to continue its strong performance and add value to stakeholders. Thank you very much.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of the Yash Agarwal from JM Financial. Please go ahead.

Yash Agarwal: I just wanted to check how the demand situation is panning out going forward. Obviously, you reported 95% to 96% capacity utilization. What do you feel would be the capacity utilization in the first half of the current financial year and also, we have had a very-very good quarter-on-quarter expansion in EBITDA margins, so was that led by inventory gains or it is better spreads and are these spreads sustainable, maybe not at this current level, but at elevated levels?

Updeep Singh: In the last quarter, we have achieved a capacity utilization of almost 95% which has shown significant improvement over the earlier quarters, which were hit a little bit by pandemic. In this quarter also, we should be able to achieve around the similar capacity utilization and going forward, we should be hovering around 95% which is good enough for looking into the aspect of being in dyed segment where the lot sizes are getting a little smaller. We should be able to achieve 94% to 95% utilization throughout the year.

Yash Agarwal: So, where is this demand coming from? The export share is going up, but is it sustainable at 47% to 48% level?

Updeep Singh: So, there was a little bit of pent-up demand and mainly in the synthetic yarns, export market has been good and we expect that at least for a couple of quarters, this is going to sustain very well. So, we expect that our exports in terms of synthetic yarns would be good enough in the coming 2 quarters as well.

Yash Agarwal: Also, how are the yarn realizations panning out? I mean I can see that there has been some increase quarter-on-quarter on yarn realization, so are we sustainable and coming back to the spreads question, how are the spreads currently and the outlook?

Updeep Singh: If you look at cotton, in case of cotton mélange yarn, the realizations have not grown in the same percentage value if you look at the raw cotton, but we are able to recover almost 70% to 75% of the increase in the cost. Whereas, in case of synthetics, I think the recovery was a little higher than cotton. So, I would say that depending on the fiber prices, we were able to recover realization to the extent of almost 90% plus..

Yash Agarwal: And what has been the raw material escalation on the synthetic side in the last three to four months?

Updeep Singh: If you look at raw material escalation on synthetic side, in the last three months, the polyester fiber has gone up by almost 12.8% and viscose has gone to the extent of almost 2.6% and acrylic fiber by 6.5 % and recycle by almost 6.5%.

Yash Agarwal: And we've been able to pass on the cost associated?

Updeep Singh: Yes, we have been able to do that plus it is not only the fiber it is the other cost in terms of dyes and chemicals as well. So, dyes and chemicals input cost as well as the fuel cost. In the last quarter, the fuel cost was also riding high and now again they are little higher. So, I think we were able to pass on a part of that to the consumer because of the pent-up demand as well.

Yash Agarwal: On your EBITDA margins, are low double-digit margins something which you feel is sustainable for FY23 given the fact that there is 95% utilization that you are targeting?

Updeep Singh: Yes, we are confident of doing that, and we have taken certain steps also so that we are able to sustain these margins.

Yash Agarwal: On your CAPEX, when is it coming on-stream and how much will it add to the turnover on full utilization?

Updeep Singh: Depending on a couple of things. One, the delivery of the machines because nowadays the delivery of the machines is a little erratic. So, we will book our machines well in advance. We will do that now since this project has been approved by the board, so we should be able to add a turnover of almost Rs. 850 crores on an annual basis, which has been estimated with good margins as well.

Yash Agarwal: Just a follow up on the CAPEX. Will this be commissioned maximum by end of FY23 or it could spiral over to FY24 also?

Updeep Singh: No, it will go to FY25 depending on the size of the project and also delivery of the machines.

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

Prerna Jhunjhunwala: I just wanted to understand your improvement in profitability on a QoQ basis. What really drove the gross margins as well as EBITDA margins for you from the product mix perspective and from the demand perspective?

Updeep Singh: I would say quarter-on-quarter, we have been able to be a little agile in shifting our products answering to the market demand on immediate basis. For example, when we increase our exports, so the particular market of export and what sort of yarn is required, may it be on the cotton mélange side or on the synthetic dyed side so, we were able to shift our product mix within the least possible time thanks to our manufacturing unit that we could have that flexibility. If you recall, I think, in one of my earlier calls, I had said that one of the things which we are implementing now is the flexibility to shift wherever we need cotton mélange to dyed synthetic then within the dyed synthetic, the count range. So, these are the flexibilities we created. Another flexibility we created was on the lot sizes because the market demands lot sizes smaller and we also pay the premium for that. So, that is the flexibility we created in our manufacturing units that helped us, number 2. Number 3, we explored certain new markets and I would say, market segments. One is the geography, we explored certain new geographies and also, we explored new market segments in terms of little bit moving away from apparel. So, we moved towards home textiles where we could apply yarn for different applications. So, these were the major reasons that we could get profitability quarter-on-quarter riding on also our efficient purchase of raw materials. So, I must compliment my team there that we could exercise a very professional approach and very well thought market researched approach in covering our cotton and also the raw material for that. So, these are the major reasons, which led us to this level of profitability quarter-on-quarter.

Prerna Jhunjhunwala: How much quarter inventory now you would have and if you can share what will be the cost for the same which you will be using for the next 6 months or 8 months.

Updeep Singh: These are certain numbers, if you look at the inventory, I think we should be carrying close to about 90 days or even a little more. I would say to the extent of 100+, but the cost would be a little less than the prevailing market price of cotton.

Prerna Jhunjhunwala: In the current product mix, could you give us a bifurcation between mélange yarn, PC and if at all you've sold any grey, just to help us understand how these mixes have moved over the last 1 to 2 years?

Updeep Singh: If you look at our capacity, we have almost 55:45, sometimes 50:50, that is what I said. We have kept a flexibility of almost 10% on 50:50, so we could go either way. So, I can say that as per our capacity and our product mix, we are 50% on cotton 50% on synthetic with 10% buffer to go either way depending on the market.

Prerna Jhunjhunwala: Okay, so flexibility of 10% odd is what you have created. Could you just help us understand the demand side on the apparel segment because you are largely catering to the apparel segment, so how is the demand panning out? Which key markets are doing well in terms of woven, knit and key export markets, which are doing well? Some color on how the demand is panning out.

Updeep Singh: If you look at within domestic, in India, the market in terms of Bhilwara**,** this cluster has done well in terms of suiting. Similarly, certain corporates, there the suiting segment has really moved on over the last quarter. In terms of exports, the biggest market in the last quarter over the period of time had been Turkey. In addition, the markets like Brazil have also helped us to grow in this.

Moderator: Thank you. The next question is from the line of Vikram Vilas Suryavanshi from Phillip capital. Please go ahead.

Vikram Vilas Suryavanshi: Most of the questions were answered, but if you can comment on the benefit of this green fiber plant for us in this rising cost structure and then your outlook on home textile business.

Updeep Singh: First of all, I'll tell you about the green fiber project. This green fiber project now is on full stream. We clocked almost 97% of the plant utilization and most of the product goes in our spinning unit wherein we have got benefit after the stabilization. It took about 3 to 6 months to stabilize the plant because it is a continuous process and the quality of raw materials has also deteriorated little bit, so we have to have a balance between the productivity, production utilization and the raw material yield as well. So, I think now we are at a stage where we are fully utilizing the plant and also making some value addition in our product mix. So, that has helped us in our spinning units and we have not taken full benefit of this and we can see this in terms of the quality of our yarn based and the consistency of the raw material. So, this project has really helped us to further our yarn business in the markets, which are sensitive in quality and also with the consistency of the raw material we are able to achieve little bit better productivity.

Vikram Vilas Suryavanshi: Are we importing any raw material for this plant?

Updeep Singh: As of now, no, because the flakes import was open, but still the licenses are to be granted. So, we have applied for that and that would be only to the extent of 20% of the capacity of the plant. It is bottles, which is collected in India only.

Vikram Vilas Suryavanshi: Sir, outlook on home textiles, how are we seeing the demand panning out and our opportunities to grow from the current level?

Updeep Singh: Our home textile is one business where the category we are in that is upholstery and drapery, that has given us good opportunities this year. In the last couple of years, we have been making products and launching products. This being a little longer order cycle category, so now this year we have already launched products. We are getting good traction in the export market, especially in UK and US, which are a little higher margin markets as well. Here, once you submit the sample, it takes you about 8 to 9 months to get the first 1,000 meters order. So, we have crossed that stage and I think in this year, we are going to do much better and be positive in the home textile business. In addition, in domestic market, we have launched a cut service under the name *'Nesterra'*. We have been able to clock almost 300 stores pan India and also, we have got a good traction. Our 8 collections are already out with almost 1,100 SKUs and we will be able to launch another 7 to 8 collections by July this year. So, this will increase our reach within India and on the brand product as well.

Vikram Vilas Suryavanshi: The last question from my side about the way cotton prices have increased and the grey yarn prices have also increased significantly, are we seeing some demand shift to blended yarn because of that or how that parity typically was, even beyond that?

Updeep Singh: Today, keeping the cotton prices in mind, they are riding very high today. If you look at cotton prices, they have touched Rs. 1 lakh per candy. So, people are shifting to some extent to go towards the blends more where the percentage of cotton is being replaced by either polyester or viscose. It will be difficult to replace whole of cotton. I can't think of that, but yes, today if you look at on an average, I would say 10% of the cotton in the blends has given way to viscose and increase in polyester and most of the mills are trying to make blended yarns or 100% polyester yarn for particular applications. So, definitely yes, cotton is giving part of its blend to viscose and polyester.

Moderator: Thank you. The next question is from the line of Ritesh Poladia from Girik Capital. Please go ahead.

Ritesh Poladia: On greenfield expansion, what would be the debt component and over 3 years, would you go up higher of 1x debt to equity?

Updeep Singh: Debt component would be to the extent of 65:35 ratio.

Ritesh Poladia: So, your debt/equity on fixed basis can go up from over 1x debt equity, right?

Bipeen Valame: Actually it is moving up only in one of the years when the project is actually just getting launched and then it comes down, but to be very frank, in our all financial models considering the benefit of this project, we are seeing it is just touching to 1 in 1 year, but then it comes down. So, overall we are expecting it to remain 1 or lower.

Ritesh Poladia: Is your production now optimum to the pre-COVID levels because during COVID, there was higher demand of low margin products than higher margin, so is that production on optimum basis or still there is a room of improvement in this 95% utilization?

Updeep Singh: I would say that during COVID, we changed our product mix. If you say the capacity utilization, yes, it is 95% + and in dyed, we can go a percentage more, if at all, depending on the lot sizes. Again, I am coming to that because the lot sizes are reducing day by day. So, I think we are at the optimum level, but there is always scope for improvement as far as the internal efficiencies are concerned. So, I won't deny the fact.

Ritesh Poladia: I get that 94% to 95% is this, but your product mix is optimum now?

Updeep Singh: No, this is ever changing because what sounded optimum to us 3 years or 2 years ago is sub-optimum now, but our new product development teams, they are out in the market to develop new products and new segments. So, I would say yes, today what we can manufacture, we are doing one of the best things, yes going forward, we might have to change our product mix depending on the market demand whether it is more towards the home textile or more on other segments, even for technical textiles, so I would say it will be ever evolving product mix.

Ritesh Poladia: That would have a good margin or lower margin?

Updeep Singh: It will be a good margin, of course, depending on the market. Suppose there is something which crashes the demand and we have to run the spindle, then margin could reduce, but more or less, I would say it will be margin up north. That is why we are developing new products.

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

Dhaval Shah: I just want to understand one thing from a near-term perspective, are you seeing pressure on the spreads because of the cotton prices and also pressure on your EBIDTA margin because the other cost, you mentioned you will be able to maintain margins at the lower double-digit also and so the volumes at 95% utilization? So, want to get a sense that what is happening in terms of the spreads in the near term and also this higher demand you said it has shifted to non-cotton, but because of the geopolitical issues, which are happening, what is your sense on the demand side because some of the research I read is mentioning about some stress to the Indian textile mills.

Updeep Singh: There are two different segments. Number 1, if you look at cotton, there has been a pressure on the cotton prices, especially on the grey cotton yarn prices because the spread in grey cotton yarn is now very much reduced, so that is one and when the spread increased, the grey cotton spread increased exponentially last year if you all recall. Whereas the spread in case of dyed mélange yarn did not increase to that level and that faster. So, it went up slowly in case of dyed and cotton mélange yarns. So, similarly I see now, the spread in dyed and cotton mélange yarn would be impacted, but not to that extent because these are all value-added products and the brands have to buy these. So, with little bit of tweaking in the product mix, I think we do understand there will be a pressure on the spread, but not to that extent as we are witnessing in the grey yarns.

Dhaval Shah: Sir, if you could elaborate in terms of the percentage terms, what sort of pressure do you see between both the categories?

Updeep Singh: I see a little bit in terms of percentage if you look at, I see little bit more pressure on the cotton side because of the cotton prices and in India, the polyester fiber being available fresh as well as recycled in good capacities, I think there will be less pressure. If I have to say on a scale of 0 to 10, I see pressure on cotton to the extent of almost 40% and on polyester to the extent of 20% or even less. So, I don't see much pressure on the polyester side.

Moderator: Thank you. The next question is from the line of Yogansh Jeswani from Mittal Analytics. Please go ahead.

Yogansh Jeswani: Most of my questions have been answered, just a couple of follow ups. The greenfield CAPEX that we are planning, will the entire 89,000 spindle capacity come in a single phase or is this spread in 2 or 3 phases?

Updeep Singh: It is a single phase project. The only thing is that depending on the machine deliveries, for example 89,000 spindles cannot be installed in a single day. It will be spread over a period of 6 to 8 months, but it is a single phase project.

Yogansh Jeswani: And we are not planning to add any fabric process to it, just the yarn as of now or is there a scope for adding fabrics as well?

Updeep Singh: In this particular project, we are only looking at the yarn and the dye house, the dying capacity for the yarn.

Yogansh Jeswani: I was just looking at the announcement that couple of other industry peers have made. So, Rs. 900+ crores number that you have highlighted for 89,000 spindles seems to be a bit on the higher side compared to what others are doing. A couple of them have announced brownfield CAPEX and that is typically lower, but still your CAPEX plan seems to be on a very higher side. Any specific reason for that or am I missing something here?

Updeep Singh: There is a reason, which I can tell you. Number 1, part of this capacity is mélange yarn capacity, so it is a double process. So, what others might have announced is only spindlage. So, for example if you say 50,000 spindles in mélange and 50,000 spindles in grey yarn, in mélange it is almost a double process. That is one reason for additional cost. Number 2, here we are also considering 40 tons dye house, a very modern 40 tons fiber dye house, which is adding to the CAPEX. So, if you remove the cost of the dye house, then we are in line with the industry.

Yogansh Jeswani: And out of this 89,000, how many are we keeping for mélange and how many for the other?

Updeep Singh: We are configuring this, but these costs are based on almost close to 40,000 spindles of mélange.

Yogansh Jeswani: So roughly 50% we are keeping. And last question from my end. A couple of participants have already asked you this, but in terms of the demand and from what we have been hearing from other players like home textile players and garment players, they are seeing a lot of push back and a lot of friction when it comes to passing on the prices and a lot of them are seeing limited utilization going forward at least for the next 1 to 3 quarters, so in a situation like this where cotton is so inflated and the demand from your end-consumers is getting pushed back, are you still confident of passing on the price hike or are you also seeing some pressure now or some friction from them coming in and do you hope to maintain such margins going forward in Q1-Q2?

Updeep Singh: As I said, there is a push back especially if you look at the cotton side because the cotton prices are really riding high. So, in case of mélange, I think the prices could be observed to the extent of 60% to 70%. There is a push back, no doubt about it and we are with the industry. As in synthetics, there is a little bit of less of that because there is a high demand of that, especially in the export market. So, I would say there is a push back, but not to that extent in synthetics. So, Q1, we expect that we should be able to get close to the similar margin if not exactly the same. So, in Q1 we are not expecting anything really drastically low.

Yogansh Jeswani: Could you share the average realizations for mélange and grey yarn and synthetic yarn? What are they currently and what were they in previous quarter?

Updeep Singh: There has been some increase. We can always share with you offline if you would like. So, you can get in touch with the investor relation team, so they would be able to give you that.

Moderator: Thank you. The next question is from the line of Neeraj Mansinghka from White Pine Investment Management. Please go ahead.

Neeraj Mansinghka: Only two questions from my side. One, margin from the greenfield would be how much once it starts?

Updeep Singh: If you look at the greenfield project, our margin on EBIDTA on sales would be to the extent of almost in double digits.

Bipeen Valame: Above 17% to 18%. Here what we have considered is basically the State benefits. Jammu & Kashmir is having a special scheme and that's the reason we have decided to have the project there. So, we see that there is a good benefit of GST and also some interest subventions. On EBIDTA, we will get the benefit in terms of GST .

Neeraj Mansinghka: So the margins will be 22% to 23% or 17% to 18%?

Updeep Singh: So you asked in overall because we have to take out the cost of dye house. So, in the yarn it will be to the extent of 17% to 18%.

Neeraj Mansinghka: What I am asking is whatever revenue is for Rs. 850 crores, on that what percentage margin would you get?

Updeep Singh: So in case on the total revenue, the percentage margin would be to the extent of almost 18.2% or 18.3% as projected by us.

Neeraj Mansinghka: You said sometime back that cotton inventory is holding at a similar price, then it means that you bought most of the cotton in the month of March or April mostly, because the prices have also spiked in the later half of April as well, so can you just clarify on the holding cost of the inventory of cotton?

Updeep Singh: I think yes, the cost of cotton has gone up by almost 29% over the last 3 months. So, we have been holding some inventory even before and exact figures can be given by our investor team. I don't have it here the exact number as to what is the number we are holding and what is the cost of cotton we are holding.

Neeraj Mansinghka: On the home textile, what is the utilization, when do you see the utilization going to higher numbers and how do you see the margin trajectory for the home textiles side?

Updeep Singh: Home textile utilization in Q4 has been close to 70% and we expect that we should be able to increase it this year to the extent of about 80% to 82%. 85% is something optimal in this business because of the various designs and all that, so I think we should be able to achieve this within this year.

Neeraj Mansinghka: And how will the margins move if the utilization goes to 85%, if you can give color on that as well?

Updeep Singh: If you look at the margins because the costs are also increasing today coal costs are increasing, the chemical cost are increasing, we see that we should be able to have a good margin to the extent of EBIDTA levels in exports to the extent of about 14% to 15% and in domestic, it will remain under pressure in single digit.

Neeraj Mansinghka: And this would be more heavy on the exports business? So, are you talking about 14% to 15% EBDITA margin on the home textiles once the utilization picks up? The last question is on the PV yarn. I think others have also asked and you have also answered, still harping on the topic, do you see PV yarn prices being impacted because of slowdown or do you see just discontinued margins for the next 6 months or 1 year?

Updeep Singh: I think PV yarn prices in the coming months may see a little bit of correction, not that much, but that has been a good segment over the last one quarter or so, even a little more than that. So, we don't see too much of pressure on that, but yes there will be some pressure at least.

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

Saket Kapoor: Firstly, if we take the cyclical nature of the business, where are we in midst of the cyclicality that needs to be factored in with yarn prices, with cotton and the other components and how are we insulated from the vagaries of the cyclicality playing adversely on the business environment?

Updeep Singh: Textile business is really cyclical worldwide. So, as far as we are concerned, we are looking to this based on a couple of things, one, our product mix, that is why if you see, we have a product mix both in cotton and wood base and higher base even in synthetics. So, this is one mitigation in terms of cyclical nature because it is not that always both the product lines would go down. So, this is our assumption and this is what we have seen even in pandemic. That is number 1 in terms of the fiber substrate. Now in terms of the product yarn, for example, we have been earlier mostly concentrated towards weaving. Pandemic taught us to go a little bit more towards the knitting side as well. So, today we have balanced our product mix of yarn in terms of raw material both for knitting and weaving and we have created our capacity in terms of flexibility in terms of interchanging the two product mixes. So, that is another way of mitigating this risk. Third, also in terms of export and domestic market, earlier we were almost I think over the years we have been at about 30% or even little less of exports. Now, pandemic and thereafter, today our export percentage has increased and there we have fixed capacities with the flexibility that this much of capacities are for domestic and this much for export and the balance we have given the flexibility to our teams to work on. So, this is the third flexibility we have created in terms of the market, domestic and export. The fourth one is the market outside India that is rather which continents, which countries we are serving and with what product mix. So, these are a few flexibilities we have created within the company so that we are insulated to the extent possible on the cyclical nature of this business.

Saket Kapoor: Sir, currently taking into account the high cotton prices, so they are bound to correct going forward. So, that will have a rippling effect on the yarn prices also and the spreading and then the destocking nature as the cycle plays on the downward. So, what would be our take on how are we going to manage the downtrend that may come in a quarter or two going forward?

Updeep Singh: That's a good question in the sense that I said before, when the prices go up, so the dyed yarn prices follow a steady path. Same would be the case in case the prices come down because as being different from grey that is something which happens immediate. In case of dye, there are long-term orders and there are commitments even to the brand and off the brand, so in that case, the impact would be there but it won't be that steep. So, it takes time to bring it down. So, for that we have prepared both in terms of our raw materials as well as in terms of our market. So, it is little different than grey yarn.

Saket Kapoor: What has been the amount of RoDTEP benefit from the government, which we have factored for this year and how much is still repayable, are we holding onto any credit position?

Bipeen Valame: So just to give you an answer if you remember that RoDTEP the Government added cotton in the RoDTEP, which was earlier not there and in synthetic, the Government dropped the RoDTEP benefit. So, overall, in operating income we must be factoring in around Rs. 20 crores to Rs. 25 crores on account of RoDTEP benefit. Now RoDTEP is 100% converted into the scrips. So, actually we have started selling the scrips and there was a demand also, but there was always a discount part on RoDTEP. So, the discount was earlier hovering at around 18% which got reduced to around 15% to 16%, which has been already factored in the number. So, as we get the scrips, actually now it is a seamless process online on the portal, so as we are realizing the scrips by selling the scrips.

Moderator: Thank you. The next question is from the line of Samarth Singh from TPF Capital. Please go ahead.

Samarth Singh: I just had one question. Do you have any commentary on the effect of the economic crisis in Sri Lanka on the Indian textile industry and on our Company?

Updeep Singh: Sri Lanka is one of the biggest customers from Indian textile industry for apparel business. So, there would be some impact, but I think that won't be too large to impact the whole industry itself. So, basically maybe some sectors, which are catering definitely to the apparel because that is more of on the apparel side with two giants present in Sri Lanka for the apparel business. There could be some impact, but not to that large extent and I think that would be tied over very soon. I don't expect too much of impact of that on our industry or on our company as well.

Samarth Singh: Would there be any benefit on the apparel side for Indian players?

Updeep Singh: For Indian apparel, there could be benefit, but then we have to scale up our garmenting. Basically, Sri Lanka is a garmenter. So we need to scale up our capacities and efficiencies on garmenting to get all the benefits what we can achieve from this situation in Sri Lanka and I don't know what could be the time lag in case of garmenting to ramp up these capacities.

Moderator: Thank you. The next question is from the line of Amit Agarwal, an individual investor. Please go ahead.

Amit Agarwal: My question is regarding the Nesterra Brand. If I am right, this is catering to the consumers and not to the store owners. So, how is this brand shaping up and is there any expansion on the margins because of creating your own brand and who are we competing with in this particular segment?

Updeep Singh: I would say that Nesterra is a cut service brand where we are catering to the retailers. We are not directly going to the consumers. So, it is at the retail point. So, today we have reached the retail points of almost 300 retailers and we are slowly progressing because here you need a lot many of collections and SKU's. So, we have ramped that and over the last 6 months, we have added almost 150 retailers in our fold. So, this brand today has reached to a service of almost 400 to 500 meters a day. We expect this to ramp up to 1000+ in the very near future with adding of more SKU's and the collections.

Amit Agarwal: Do you think there is a scope of expansion of margins because of creating your own brand?

Updeep Singh: Yes, there is, but at the same time there is a cost involved. So, we are going a little cautious on that, but definitely yes, there is expansion of profitability based on the brand, but that would come little later because we can't expect the brand to perform well within 1 year or 2 years of service.

Amit Agarwal: Sir, the consumer does not know the brand, the consumer is just buying the cloth, whereas it is the store owner that is asking for the Nesterra Brand, am I right?

Updeep Singh: That is what I am saying, to create consumer awareness, we need to invest in brand in terms of advertising as well. So, today we have done that in little limited way, but as it picks up, we will be going aggressive in the market. So, there has to be a pool of brand. When you go to a store, I first ask if there is Nesterra. So, I would say, as of now 30% to 40% is that and 60% is what retailers help as Nesterra.

Amit Agarwal: Are there any other brands in the market right now?

Updeep Singh: There are many. We have positioned ourselves in one of the higher end brands. Otherwise, if you go to market, this market is more on the unorganized sector. So, here we have a couple of good brands whom we are competing with.

Amit Agarwal: And my second question is regarding the cotton prices and the yarn industry. I have been reading articles where it has been mentioned that the yarn industry is shutting down because of high cotton prices in the last 2 to 3 months. Your conference is saying that there is hardly any impact. Could you throw the exact reason or are we supposed to find the pinch in the coming months if not right now?

Updeep Singh: The industry is saying shutting down the spindles where they are grey spindles basically, number 1. These are small mills because if you see the cotton prices today require higher level of working capital as well. So, these are the small mills on grey and now on grey, the spreads have really come down. So I would say, in our case being dyed, it will take a little more time because when it went up, if you recall last year, last year grey cotton yarn people earned EBITDA to the level of more than 20% because they went very steep. Now, it has also come down very steeply. So, there is little bit of lag between the dyed and the grey and because the dyed goes basically to the brands, and brands have a continuity of business and they are long-term orders. So, I think at least for this quarter, we don't see too much of downside on our cotton mélange sales. This is a cyclical industry. These cotton prices nobody could predict. I wish we could.

Amit Agarwal: My last question is regarding the PET bottles. Two to three conferences back, you said that PET bottles were ruling very high prices. Have they come down and what is the future of this particular segment as people are shifting more from PET bottles to the glass bottles?

Updeep Singh: The PET bottles today are hovering in the range of Rs. 55 to 56 per kg. They have not come down too much as was the earlier expectation. The highest the PET bottles have touched is 65 to 72. Today, they are ranging between 55. So, I think this is some sort of a stabilized rate as far as I see in next 1 or 2 months. With regard to the question on availability of PET bottles, definitely there is a little bit decrease, but on the other hand, the good thing is number one the collection rate in India is quite good. If you compare it to some other countries, our collection rate is good so that we are able to collect more bottles. Even if there is a reduced demand, reduced usage of PET bottles, the collection being good, we are able to maintain the delivery, number 1. Number 2, Government of India has taken a good step that they have allowed 20% of the capacity as import for individual manufacturers for imported washed flakes. So, that would help us to contain these prices and to sustain this production.

Amit Agarwal: Is this a one-off project or are you thinking of expansion in the near future and how is this industry doing in the rest of the world?

Updeep Singh: First, I will answer your second question. The rest of the world except India and China, this part of Asia, rest of the world, there is a premium on the product. If you go to US, the recycled fiber sells almost 10 cents more than the fresh fiber. Whereas in India and China, it is the other way round. So, it will take some time as the awareness of sustainability and the demand of sustainable products, a little bit of value addition increases, I think we will also arrive there, but it will take some time. It won’t happen immediately. So, there will be a difference between recycled product and a fresh product with recycled being a little higher, but not immediately. I don't expect this to happen in the near future. As regards the expansion of this project is concerned, today we don't envisage anything because this is catering to our own requirement. So, our requirement is almost the similar thing., So, I don’t think we see any expansion in this in the very near future.

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

Saket Kapoor: For the RoDTEP part, which you were answering, Rs. 25 crores were our receivable and we have received certificate of Rs. 25 crores for the same and now they are renewable at a discount of 15%?

Bipeen Valame: No, it’s not like this. What happens is, in our case, we are having a significant export, so we keep on getting RoDTEP scrips, as you know and everybody knows now. As I mentioned to you, if you ask me the last quarter or last year, whatever RoDTEP we have recognized, which is around Rs. 20 crores. Next question is that the rates for the cotton and synthetic. So, there is a cap on which we can actually go on a higher margin basis also. There is a limit to which we can go up to RoDTEP. Then I just give you second situation when we are getting the scripsand when we try to sell the scrips because we need to encash those scrips if we don't have any other import and we don't have any import to utilize those scrips. There we see a discount and then that discount gets accounted for. Is it clear, sir?

Saket Kapoor: No, sir the discount part only I missed the link.

Bipeen Valame: Okay, the discount part is, what happens that whenever you try to sell the scrips, considering the market demand-supply situation, remember RoDTEP came suddenly in the month of September, then it started coming in December and March. So, the demand was lower and the supply was higher. The demand-supply anomaly created the discount. If you remember MEIS, this MEIS has got consumed in 2 RoDTEP. So, MAI also we used to get a discount of 4% to 5%. So, in RoDTEP, the discount got extended. So, I said that we consider the receivable after considering the discount.

Saket Kapoor: What is the maturity period of the certificate if we allow them to hold to maturity?

Bipeen Valame: You can immediately sell them. For us it is immediately sell and I think the maturity period of utilization would be 6 months to 1 year. So, buyer has to utilize it.

Saket Kapoor: I was just trying to understand. Hold to maturity period is how much? Suppose we don't have the requirement to redeem.

Bipeen Valame: We don't keep it with us. We resell in the market.

Saket Kapoor: That is correct, sir, but if we held it to maturity, what is the maturity period?

Bipeen Valame: There is no maturity because what happens is that as we start getting the export, we keep on generating the scrips. The moment we generate a scrip, if we don't have a requirement, we sell them. Because that's cash, we encash the cash.

Saket Kapoor: I was just trying to understand who is benefiting from the 15% arbitrage?

Bipeen Valame: Okay, so the beneficiary in that arbitrage is the importer of the machinery or somebody who wants to import and use the RoDTEP.

Saket Kapoor: So, whoever is doing the CAPEX. Coming to the working capital requirement, which you were mentioning to the answer to the previous question that the working capital requirement has gone up significantly.

Bipeen Valame: No, it has not gone up significantly. What actually happened is that last year overall our turnover was also less. In current year, actually the utilization has gone up. Our revenue has gone up substantially. So, I said that working capital we still have the margin. We have a head room of more than 25% within our sanction. So, working capital utilization on an average increased on account of the cotton purchase. So, even if I hold the number of days same, because the cotton prices went up, the utilization has gone up.

Saket Kapoor: The net debt level if you could give us?

Bipeen Valame: So, term loan plus working capital together is about Rs. 940 crores.

Saket Kapoor: For FY23, what is the guidance? How much it will be when the CAPEX comes up?

Bipeen Valame: So, FY23 also it will remain in the same zone because we also have the repayments. I also have the lined-up repayment of Rs. 130 crores.

Moderator: Thank you.

Updeep Singh: Thank you very much, ladies and gentlemen, for taking this time off and also asking very pertinent questions. I really appreciate each of your questions and I hope that my team and myself have been able to answer all the questions. With this I wish you great almost three quarters ahead for this year and wish you all the best and your families good health. Thank you very much for joining us today.

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