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**SUB: TRANSCRIPT OF EARNINGS CONFERENCE CALL OF VARDHMAN
TEXTILES LIMITED – Q3 FY2023**

Sir,

Pursuant to the provisions of Regulation 30 read with Part A of Schedule III of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed herewith transcript of the earnings conference call of the Company held on 27th January, 2023 to discuss Q3 FY2023 results.

Kindly take the same on record.

Thanking you,

Yours faithfully,
FOR VARDHMAN TEXTILES LIMITED

(SANJAY GUPTA)
COMPANY SECRETARY



“Vardhman Textiles Limited
Q3 FY2023 Earnings Conference Call”

January 27, 2023



ANALYST:

**MR. ABHISHEK NIGAM – BATLIVALA & KARANI
SECURITIES INDIA PRIVATE LIMITED**

MANAGEMENT:

**MR. NEERAJ JAIN – JOINT MANAGING DIRECTOR –
VARDHMAN TEXTILES LIMITED**
**MR. MUKESH BANSAL – HEAD – FABRIC
MARKETING – VARDHMAN TEXTILES LIMITED**
**MR. RAJEEV THAPAR – CHIEF FINANCIAL OFFICER -
VARDHMAN TEXTILES LIMITED**
**MR. SUSHIL JHAMB – DIRECTOR – RAW MATERIALS
– VARDHMAN TEXTILES LIMITED**



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Moderator: Ladies and gentlemen, good day and welcome to the Vardhman Textiles Limited Q3 FY2023 earnings conference call hosted by Batlivala & Karani Securities India Private Limited. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference, 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. Abhishek Nigam from B&K Securities. Thank you and over to you Sir!

Abhishek Nigam: Thank you so much Jordan. Good evening everyone and thank you so much for dialing into Vardhman Textiles nine months FY2023 earnings call. Today we are joined by Mr. Neeraj Jain who is the Joint MD, Mr. Rajeev Thapar, CFO, Mr. Mukesh Bansal, Head of Fabric Marketing and Mr. Sushil Jhamb, Director of Raw Materials and now without any further delay I will hand it over to the management.

Neeraj Jain: Thanks Abhishek. Good afternoon everyone. The results were declared yesterday I am sure you had the opportunity to go through the same. In terms of business scenario as we discussed on the numbers as we discussed during the last call we are expecting lots of devaluation of stocks. We are also expecting the margins to be low because the utilization was very less at that stage. The exports from India was not happening because of the global pressures of no demand and especially from Europe and USA and very high prices of cotton in this quarter also where the reasons were the margins are relatively much lower compared to the immediate preceding quarter. Looking at the situation today the prices of cotton has started coming down but is still much higher than what it should have been in our view but if you look at from the perspective of New York Future, New York Future is about 85 cents to 87 cents as of now and historically the Indian cotton is about 4 cents or 5 cents higher than the New York Future so it should have been in the range of about 90 cents to 91 cents per pound as against that it is close to about £96 to £97 as of now one.

Number two the overall crop size seems to be quite good. The quality is reasonably okay but it is the first time in the history of India where the farmers have holded lots of cotton in anticipation that they are likely to get better prices as the cotton in the last year. So the famers are expecting since the last year the prices they got almost Rs.9000 to Rs.10000 and even for a smaller period higher than that prices also for their....., so their expectation is also that this year also they should get better so that is why they are holding on to lots of stocks but at the same time I think the last year New York Future was almost at about 120 cents to 125 cents against that it is 85 cents. From that perspective one is to look at it and rationalize what should be the right level of prices in Indian context.

Third in terms of the quality as I mentioned the quality seems to be quite good but the overall arrival of crop is much less. Till now the crop has come only to the level about 110 lakh bales or



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so out of the total expectation of close to about 330 lakh bales and up to this time last year the crop was almost 175 lakh bales or so, so we are short by 165 lakh bales till now in terms of arrivals compared to the last year, but it is not because of the nonavailability of cotton it is more because of the pricing expectation by the supplier where..... better price going forward so let us see what happens.

Next in terms of the demand and utilization this period has seen a little better situation in terms of demand especially the export demand. China after almost seven, eight and nine months has come back to start buying, because of COVID there were lots of restrictions in China which has started opening up and it is expected or it is an expectation that after they have the herd immunity so maybe they have more difficulties for the next one or two months but eventually after that there will be lots of opening up and lots of pent-up demand which could come in so they have started buying the yarn, they have started buying the other materials which is giving some push or some improvement to the spinning industry worldwide. It is still expected or estimated the worldwide spinning utilization is not more than 75% as of now and Indian cotton spinning utilization the worst time I think it has come down to about 50% so our estimate was the spinning was running close to about 60% to 65% but the cotton spinning had come down to 50% and remaining 10% to 15% people shifted to 100% poly or 100% viscose kind of products if they are not making money but at least the spinners were in a position to get its partial fixed cost so that is why they had shifted to the alternate products, but going by today's situation our estimate is cotton spinning is back to the level of about 85% to 90% as on today. Of course the full cotton days was not there but then last three to four weeks the utilization of spinning has definitely improved based upon the orders from the international markets especially China and I think it looks like since the utilization is improving the losses would be coming down and the pressure would come down to that extent and we might look at the 100% utilization also in the times to come though still Europe and USA are still the concerned with the issues.

Demand I look at it from three perspectives. One the general slowdown of demand which was there because of the oil prices, because of the gas prices, because of the overall recession perception or the interest rates might increase and that concern continues to be there. The second was most of the brands they had lots of inventories so they have suddenly decided not to buy anything and they wanted to reduce their stocks because the supply chain started improving and as a result of that whatever material they have overbooked they started getting them. The demand was less so as a result of that their overall stock was much higher than what it should be and they decided that unless stocks comes into the normal levels they will not be buying. I think if you look at the last few weeks over there definitely the improvement has started coming and any brand where they have liquidated stocks they have come down to a reasonable level of stocks they have started buying so there is some improvement on account of there also in the overall buying.



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The third as I mentioned China could be one factor where it is a big country huge population, good per capita income and the expectation of China has come out so their local or the domestic demands can definitely be much better so I think in that hope lots of yarn they have started buying and they have started converting into the fabric or the garment so that will definitely give an impetus to the spinning industry in India as well. As far as Vardhman is concerned, we are running 100% capacity utilization for the last about one-and-a-half months or two months initially it was a little less but I think as the opportunity came in we started running the full capacity. Of course the challenges as I mentioned are still there but I think in terms of utilization it looks like the worst is over and also we have also converted about 12% to 13% of our capacity to the alternate products which as of now has come down to 2%, 3% and 4% only so majority of the capacity has started coming back to the conventional products rather than the 100% poly or 100% viscose kind of products so this is on the spinning side. Now I will request Mukesh to give some idea on the fabric side also and then we can start the question and answers so Mukesh to you!

Mukesh Bansal:

Good evening Neeraj Ji thank you very much. Most of the points as far as the overall outlook for the textile industry you have covered. From fabric standpoint I think last quarter one was the slowdown in the retail sales in the US and Europe and Asia including India and Japan mainly one was the inflation concerns because of all the commodities prices were high and the brands were sitting on the inventory which was higher priced carried over from the previous quarters so in order to generate demand so they had to give hefty discounts which would have impacted the cash flows and the profitability so that has been a major concern. The correction on the inventories on the retail side still continues because given the future outlook so I am not looking at resurgence in demand in the immediate future so that till we are trying to manage the inventory from the peak carried over inventory so the demand slowness continues for the time being but the moment if you look at the next three to four months then the inflation concerns start to ease and US may not increase interest rates further if the inflation rates within their target and then the resurgence in demand can start happening so if the retail still bounces the inventories are relatively lower levels and then we can see good amount of demand coming up and in Europe the situation is linked to Russia Ukraine War and also the energy crisis and renewable energy crisis so the moment that settles we may see normal level of demand coming up. Once the stronger demand picks up the inventory is at the lower levels then..... resurgence in demand happens the question is the time. Similarly in India unexpectedly the last quarter has been a little slower as far as the retail demands are concerned but this quarter we are seeing a better demand coming up from India given the marriage season and the..... so we are seeing that demand will start happening and the next bigger market was Japan so one is Japanese retailers they had a big retail market in China so now the Chinese government has given instructions and Chinese economy is opening up so there is a possibility that the demand from China will also pick up so as a whole we can only hope for better future regarding the sluggishness continues and that is it from my side. Thank you.



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- Neeraj Jain:** Thanks Mukesh. We can start with the Q&A and the remaining queries we can answer as the questions come in.
- Moderator:** Thank you. We will now begin with the question and answer session. Ladies and gentlemen we will wait for a moment while the question queue assembles. The first question is from the line of Anik Mitra from Wallfort. Please go ahead.
- Anik Mitra:** Thanks for taking my question Sir. My first question is Sir cotton and yarn spread were quoting negative for quite some time so what is the current situation and Sir what percentage of yarn produced means I am saying from your perspective what percent of yarn produced by you is sold outside?
- Neeraj Jain:** Whatever we produce almost 65% is sold outside so our internal consumption is only about 35% to 37%.
- Anik Mitra:** What is the current scenario of cotton and yarn spread?
- Neeraj Jain:** So the current spread is still in the range of about 60 cents to 65 cents.
- Anik Mitra:** I am asking in terms of cotton and yarn spread not the international one Indian cotton and yarn spread like it was quoting negative for quite some time?
- Neeraj Jain:** No it is not negative now. If you look at the Indian cotton the clean cost comes to about Rs.220 to Rs.225 a kg I am taking the December at rate of Rs.63000 a candy price and that the yarn price will be in the range of about Rs.270 or so.
- Anik Mitra:** My next question is what is the inventory situation in the industry now?
- Neeraj Jain:** Our estimate the cotton inventory with the mills sector will not be more than one month as of now.
- Anik Mitra:** With a few management of some retailers I got to understand like around 30% of inventory is carried by US at this point of time and around 50% to 60% of inventory is carried by UK at this point of time what is your take on this ground?
- Neeraj Jain:** I think my call is a little different so one is that the brands have lots of stock, two I simply look at whether we have started getting the orders from the brands or not and frankly wherever we are working almost 70% to 80% brands we have started getting back the orders in small quantities and they will be buying only if they have exhausted the inventories so maybe brand-to-brand it could be different what kind of stocks are they having but surely couple of brands I think they



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have started buying so which gives me one surely a confidence that the situation is not that bad we have 50% to 60% inventories so definitely things have improved from that perspective.

Anik Mitra: Thank you so much.

Moderator: Thank you. The next question is from the line of Abhineet Anand from Emkay Global Financial Service. Please go ahead.

Abhineet Anand: Thanks a lot. Sir two questions. First is that you indicated that exports have picked up one of the things being that purely Indian cotton has corrected compared to 2Q so what are the key regions Bangladesh used to be one of the large ones and you indicated China so for this quarter typically what are the key reasons of yarn exports for us?

Neeraj Jain: No the Q3 which we are discussing at that stage there was no improvement so I said the improvement is in the current situation where the spinning utilization has improved it started improving in the month of December and definitely it is better as on today. Two I think as I mentioned earlier also the overall worldwide it is expected that the utilization of spinning sector will not be more than 70% or so and this was for the India situation also now the Indian situation is a little better so I think we have started touching 85% to 90% in my view going by surveys we do internally and the biggest reason for improvement in this period last one month or so has been additional buying from Chinese market which earlier they were not doing because of the COVID restriction and there were lots of sentimental issues over there where people were not sure when the opening will happen so since now they have started relaxing the conditions of COVID I think there is much more optimism in that country as well from that perspective.

Abhineet Anand: One of the reasons I think in 2Q you had highlighted that because of the fact that Indian cotton was at higher price some of the yarn importers from Russia and Bangladesh imports yarn from India they were not buying because of the fact that our cotton was at high price so our yarn would also be at a higher price so that situation has improved Sir?

Neeraj Jain: That situation has improved that is why China has come to buy from us otherwise they were buying only from Vietnam because our cotton was much more expensive than even the imported cotton or American cotton which was available in Vietnam so we could not export at all, so definitely Indian cotton today is better compared to that, of course not at what level it should be but it is definitely better situation compared to when we had the Q2 call.

Abhineet Anand: Sure Sir and second on the capacity side we were to add 65000 spindles what is the status and second is that Sir when you indicated that we have started hitting 100% so we had that medium term plan of putting another 2 lakh spindles what is the company thinking about when you have already started hitting something like 100% so any thoughts on placing orders or any change in that thought?



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Neeraj Jain: So the first question on the 65000 spindles we have already started the commercial production partially and it is likely to be completed I think the next may be two, three to four weeks or so the full production should be available by end of February in my view partially it has already started. Two though we are starting in the full capacity but I think still the margins are much less and we are waiting or we will still like to wait for some more time before the situation becomes normal because still with the 85% utilization and the worldwide utilization is much less we are not in a hurry to place all the orders today. Three also looking at what stage because we are talking to the government for the import duty of cotton, etc., and I still feel before we take a very big expansion this issue must be resolved otherwise this issue will keep coming up time and again whenever the crop is short so as on today we are likely to get lots of surplus in India for the current year but I think for the long term of the industry it will be better that these issues get resolved and then only we should take a very big expansions that we want to take.

Abhineet Anand: Thank you.

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

Purna Jhunjhunwala: Thank you for the opportunity Sir. Sir in light of maker arises this year what will be your cotton procuring strategy?

Neeraj Jain: We always look at it from two perspectives. One is we have to buy the quality cotton. Two is what will be the commercial so in this scenario because the quality of cotton is earlier whenever the prices are lower in the season lots of cotton will get exported and later on the good quality of cotton is not available so that is one of the considerations where we normally have a stocking to much bigger levels compared to our consumption in the full season so that we do not require to buy in the off season. This year because of the high cotton prices in India that situation is not there so the export from India has not happened at all and it is only about 2 lakh bales or 3 lakh bales till now and if the good quality cotton is available in the country then at least that pressure is not there the cotton will vanish so you have to buy two times your operations or to give the service to your customers that pressure is over. Second is the commercial what we feel is the right price. We feel these are the prices which are still higher than what it should be and cotton is available. In case the prices do not come down to the normal level which we feel is always New York Future plus 4 cents or 5 cents kind of a pricing I think we are not really gung-ho to have a six months stocking at the end of March. That cotton is in any case available so we will keep buying as we require or as and when we want to buy so at these kinds of levels or this kind of spread for the Indian cotton compared to New York Future I think there is no intention for us to buy very big quantities so we will keep talking because in any case the good quality cotton is available in the country.

Purna Jhunjhunwala: Is there any hedging laws, etc., in this quarter?



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Neeraj Jain: No, we do the hedging only whenever we have to buy big quantities at that stage to cover our sales we try to hedge it one or the other way. Since this time our cotton stocks are bare minimum so hardly any, some minuscule few lakhs here and there I do not recall but overall there is no hedging because there is hardly any stocks available to us.

Prerna Jhunjunwala: Last question if I may ask on profitability now that our units are at around 100% utilization recently and we are recovering in fabric so do we see returning back to normal profitability in two or three quarters?

Neeraj Jain: No surely no because it is only the running of the full capacity where we are either covering our full costs or may be sometimes covering not full costs even so the design has to be better we should stock the capacity or we should keep running where the losses are less so since the losses by running is less or there is a small profitability so that is why the capacities in India have started utilizing better capacity but in any case the margins are not normalized at all because that will not happen till the time the entire world is running with only 70% capacity utilization so I do not think that is the situation where we can say the normalization or profit will happen in Q4. It may improve the situation overall may improve from the earlier period but I do not think today as on today there is a situation where we can say we have become normalized no.

Prerna Jhunjunwala: Sir last question on the segment wise demand scenario knit versus woven versus denim versus home textiles can you throw some color?

Neeraj Jain: Because we supply to all the four segments and in our view if you look at the home textiles I understand their lowest capacity utilization has come in the range of about 45% to 50% from where they will improve to I think now 65% to 70%, same way if you look at denim exports the situation continues to be about 50% utilization whereas the domestic demand for the denim has improved so the overall utilization by the denim mills also has improved from 50% to about 70% or so. Woven we feel most of the mills are running at the capacity utilization of about 80% to 85% and knit also in between had come down to about 50% to 55% they have improved to about 60% to 70% so there is an improvement in every segment but again it is suboptimally utilized even today also so it looks like only I can say for most of these segments probably the worst is over but I do not think anyone can make really good money till the time the entire value chain starts utilizing the fully capacities or optimal capacities.

Prerna Jhunjunwala: Thank you so much Sir and I will come back in the question queue if required. All the best.

Moderator: Thank you. We have the next question from Falguni Dutta from Jet Age Securities Private Limited. Please go ahead.

Falguni Dutta: Thank you Sir. Good afternoon Sir. I had a question on inventory loss did we have any inventory loss for the quarter?



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- Neeraj Jain:** Last quarter there was a loss because if you recall before that I think the cotton prices were ranging almost in the range of about Rs.80000 to Rs.85000 or so, so there is a partial loss which is already happened and some losses are likely to happen even in the current quarter also.
- Falguni Dutta:** If you can quantify the amount for Q3?
- Neeraj Jain:** No I can only suggest to you, you can look at market prices of cotton are available to everyone. Stocks you can make out easily what kind of stocks factories are having so we do not share that number but I think it is possible for you to calculate that.
- Falguni Dutta:** How much inventory of cotton would we be carrying end of December?
- Neeraj Jain:** I think not more than a month or so.
- Falguni Dutta:** One more thing you mentioned about price of yarn at Rs.270 a kg so is this for 30 counts?
- Neeraj Jain:** All our discussions are always the common count.
- Falguni Dutta:** What would be the exports of yarn let us say last month from India and in that what percentage would be China?
- Neeraj Jain:** Till December the improvement had not come in. From India the overall export was about 53 million to 54 million kg in the month of December also. Chinese most of the orders have come in the second and third week of December where I think January my expectation is the improvement will happen, till December there was no change in what the Chinese were buying so there was hardly any buying by the China but all these improvements we have actually started by using materials somewhere second and third week of December and I hope the January overall figures from India can be higher surely should be higher from 53 million to 54 million kg which was constant for two to three months and in fact the lowest figure I think in the month of September or October we got only about 35 million kg so from 35 million on the lowest of 35 million we tried 54 million in December and January and February it can be in my personal view it can be 10 million to 15 million at least 15 million higher than the December figure as well.
- Falguni Dutta:** Sir in normal times what percentage of our exports would go to China from India?
- Neeraj Jain:** So from India the export to China would be in the range of about 25%.
- Falguni Dutta:** 25% of yarn exports?
- Neeraj Jain:** Yes 20% to 25%.



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- Falguni Dutta:** Sir my last question directionally would you think that Q4 should be better than this quarter?
- Neeraj Jain:** So one is the number and second is the business. I think numbers you were to work out how the numbers goes out I can only say in terms of utilization it is better, I can only say in terms of cotton prices it is better, I can only say the lots of losses have already been provided in the system on account of the inventory the next set it is yet to come so the overall business sentiment perspective seems to be better. Whether they get converted into the numbers in the Q4 or may be a quarter after that that is something you guys have to work on. I do not want to give any indication or any suggestion on the profitability numbers at this stage because the kind of volatility we have seen in the last six months it is anybody's guess how the tomorrow will be.
- Falguni Dutta:** Thank you.
- Moderator:** Thank you. The next question is from the line of Amruta Deherkar Sane from Wealth Managers India Private Limited. Please go ahead Madam.
- Amruta Deherkar Sane:** Thank you for this opportunity. I have two questions. First is regarding the capacity so from 11.26 lakh to new capacity that we have so after the commercialization of 65000 spindles now the company capacity at the end of March will be 11.91 lakh spindles am I right?
- Neeraj Jain:** Yes.
- Amruta Deherkar Sane:** The second question was regarding the sustainable EBITDA margin for the yarn and fabric segment so what kind of margins do you expect after all these does settle?
- Neeraj Jain:** The margins of fabric are surely better because the spinning is passing through the test time as of now. Whenever the yarns price come down normally we have always seen whenever the price of yarn goes up the fabric price increase does not happen in the same proportion and the same is true for the reversal also so whenever the yarn prices are coming down because they have booked the fabric booked some orders and one which are at a higher price, also the prices does not come down in the same proportion so surely the margins as on today on the fabric division is better.
- Amruta Deherkar Sane:** On a sustainable basis what kind of margins from the fabric division is less?
- Neeraj Jain:** Sorry normally we do not share the numbers of the division wise margins.
- Amruta Deherkar Sane:** Just one last question so for our fabric business the entire yarn that we have used from our yarn division right or do we acquire any yarn from outside also?
- Neeraj Jain:** No 97% to 98% is in-house, may be sometimes 1% or 2% some specific yarn which we do not produce that we buy but 99% we buy from us internally.



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Amruta Deherkar Sane: Thank you.

Moderator: Thank you. The next question is from the line of Rushabh from RBSA Investment Manager. Please go ahead.

Rushabh: I am just asking in the current scenario we are seeing lot of industry players they are saying that the bigger retailers were from Europe and US countries they are saying that we will only increase the sourcing from India only if you increase the MMF capacity as opposed to the current cotton based capacity that we have?

Neeraj Jain: It is not like this. I think there is a product basket every brand has so wherever they get the better pricing or better product for any segment they will keep buying so it is not that they want to put in this condition that if you increase then only we will buy from you but yes as a matter of fact it is a known fact that the cotton consumption out of all fiber consumption is only about 30% worldwide 70% is manmade so it is not that brand is putting pressure but of course slowly I think as the share of manmade is increasing India also is looking at and we are also increasing our manmade or blended capacities to that extent.

Rushabh: Suppose if we have to look in business dynamics and suppose a person who is into 100% knitted versus blended how do say margins profile or business sense makes sense which is a more better opportunity for a person who is doing both?

Neeraj Jain: Historically cotton spinners have made more money in India but yes this has been a period where either you are making cotton, you are making polyester, you are making viscose, you are making any blend everyone was losing initially but historically since our cotton is placed at the right prices historically the Indian spinners makes more money on the basis of 100% cotton products.

Rushabh: Thank you Sir.

Moderator: Thank you. The next question is from the line of Surya Narayan from Sunidhi Securities. Please go ahead.

Surya Narayan: Thank you Sir for the opportunity. Sir just to understand from the current revenue stream how much have come from the regular customers and how much is from new customers?

Neeraj Jain: Hardly any new customers in this kind of period so most of the business was with the existing customers only.

Surya Narayan: Secondly Sir you have said that the denim capacity in industry wise has risen to 70% and 20% and woven to around nearly close to 100% or 80% to 85% to 90% and knit by around 10% so what is it and side-by-side you are also saying that the demand has not been poking out in the



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US markets because the retailers they are destocking and what has led to such kind of surge in the capacity utilization?

Neeraj Jain: I have never said things have not improved I have said whichever brand they are exhausting the stock they have started buying. Two improvement has happened because of the China as we are expecting a big opening up after the COVID issue is over so they have started buying so these are the two reasons where the capacity utilization has started improving.

Surya Narayan: What is your sense of whether the US and Europe the retailers they have finished the destocking or still destocking is work in progress?

Neeraj Jain: So there are both kind of brands there are some of them which have decided which are not buying at all and lots of them which have started buying, for example..... so the business has started happening which was not happening earlier at all. There is brands like Decathlon or maybe..... which are not buying still now, but I am sure as the things passed because everyone is exhausting the stocks and it is a matter of time when they start buying them.

Surya Narayan: Regarding the arrival of the crop you are saying 65 plus we are falling short year-on-year I understand that the cotton holding is being taken by the farmers, so in dialogue do you have any dialogue with the government of India to work out any mechanism to reduce the import duty so that the Indian cotton?

Neeraj Jain: The industry has been talking to the government to remove this, but we are not very sure whether the government will be willing to take any decision or not so they do not commit, they do not deny. I am not very sure how the things will happen we are waiting for the budget, definitely after the budget if anyone said. We are continuously in dialogue with the government normally because without this I think unless we resolve this issue it is going to be a long-term concern.

Surya Narayan: One of our players has said that if we will not be competitive to international cotton then India could be losing heavily in the denim market in particular so is your representation to the industry is government not being heard properly or our government has only the farmer in mind and not the industry?

Neeraj Jain: We can only give our view point which we have given them adequately. Now government has in their own judgment will take a view what is right for the country they feel and accordingly they will do well. We can give our part of the story which we have given to them, rest is up to them to take a view in their judgement whatever the thing is correct for the industry.

Surya Narayan: Thank you Sir.

Moderator: Thank you. The next question from the line of Awanish Chandra from SMIFS. Please go ahead.



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Awanish Chandra: Thank you very much for taking my question. Sir first thing you have talked about we have one month of cotton inventory what would be the average price of that inventory?

Neeraj Jain: We have been consuming almost 80000, 85000, 90000 also every month we buy one month based upon the market prices and every month that average will keep happening, so our prices will still be as per the current prices but it is a simple calculation starting from the marketing prices you have one month of stock every month end you keep adding and reducing it from the consumptions. Surely it will be as per the correct market prices.

Awanish Chandra: Second question you have talked about many times in several calls while you are not deciding on the capex part but purely from the long term perspective if we want to participate in growth story do not you think it is time to take that decision because it still takes 12 to 15 months for implementation from the decision making?

Neeraj Jain: Yes from business perspective I think what you are saying is right that once the capacity utilization whether we are making money or not but till the time the utilization has started improving it is a matter of time when the business will also grow so there is no issue or concern on that and you are also right it will take 12 to 15 months for implementation of project from that perspective also. It will make sense to add the capacity but the larger or the bigger question is that in case India always have custom duty on import of cotton and any year we are recording that sales so what kind of situation will the country be in. We would still want to take a little pause for a while and want to look at how the situation goes, how the government views on the thing plus only last couple of weeks the utilization is improving and coming from a big setback we want to wait or pause for some more time before we take a view on a very large expansion.

Awanish Chandra: Not putting any number but do you really think that we will come back to double digit margin because the single digit margin was very surprising and we all understand that it is a very difficult situation to be in but in fourth quarter we will come back to double digits number?

Neeraj Jain: As I mentioned earlier also I do not want to put any guidance on the numbers. So given with the business scenario and again today all customers buy only for next four weeks so we do not know the situation everyday whether the price goes up or down so it is very, very difficult for us to predict as of now. It is also very difficult for us to predict what kind of cotton prices are going to be there as no mill has the inventory more than three weeks or four weeks so any judgement call or any number suggestion I think will be too risky or will not be desirable at this stage from our perspective.

Awanish Chandra: Thank you very much Sir. All the best.

Moderator: Thank you. The next question is from the line of Nikhil Agrawal from VT Capital. Please go ahead.



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Nikhil Agrawal: Good evening and thank you for the opportunity. Sir I wanted to know like regarding the Chinese exports what has been the trend historically like have they been importing cotton and fabrics from India previously around three to four years ago as well or has it increased because of US ban on Chinese cotton?

Neeraj Jain: There are couple of reasons. One our prices of yarn is competitive so that is why they are buying from us. Two of course there is this pressure of cotton from USA or western world because of which it is easy for them to get the yarn from India and so the exports of their garment made out of this yarn. One of another reason is Pakistan is a very big exporter to China and Pakistan situation spinning is in a very bad, bad condition is I think one of the worst in the world today, their cotton crop got fade, they are getting imported cotton which is at very, very high cost and as a result of that their exports to China has come down in a big way. Chinese has to buy so I think India is replacing that because we are still reasonably placed compared to Pakistan so that advantage has come to India. Last year our prices of cotton were the highest the advantage was taken by the Vietnamese where they kept exporting they kept importing the cotton and they kept exporting the yarn. This year the situation if I look at the entire world the worst situation would be there for Pakistan and since their cotton cost is very high they will be losing high money so their capacity utilization will be lesser someone else will take advantage of that so to that extent I think other countries including India will be more competitive and we started exporting the yarn to China.

Nikhil Agrawal: Okay got it and Sir the 25% of yarn exports to China this is currently basically of the total exports from India 25% is going to China you said?

Neeraj Jain: No whatever is the export we do out of that 20% so let us say whatever yarn we produced about 30% gets exported and out of that 20% would be the Chinese.

Nikhil Agrawal: You are speaking on the current level or the industry level?

Neeraj Jain: Industry level I am talking.

Nikhil Agrawal: Okay got it. Thank you so much Sir. That is it for me.

Moderator: Thank you. The next question from the line of Nirav Savai from Abakkus Asset Management Company. Please go ahead.

Nirav Savai: So my question is the extent to which as you said in Pakistan the situation is very bad, primarily it started with floods and now geopolitical problems so what would be the extent of loss if we see the cotton crop damage in this cotton season when India would have an advantage with better production?



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Neeraj Jain: It looks like their crop has come down to about 50% of their consumption and to that extent partially they will be losing capacity, partially they will be importing from America or the other parts of the world and their next crop will start coming only in the month of July or August so in the next couple of months I think they are likely to be in more and more difficult situation.

Nirav Savai: This would not only benefit spinning but also woven, denim or home textiles where Pakistan competes?

Neeraj Jain: It should.

Nirav Savai: And next crop you are saying will come July August onwards so maybe next two quarters or so India would have an edge over competition from Pakistan?

Neeraj Jain: Correct.

Nirav Savai: Another thing was in the import duty of cotton as you said there has been a longstanding issue with the industry so to what extent it has impacted the cotton imports maybe if we can say prior to the import duty and post the duty?

Neeraj Jain: I think the import duty should not be looked at from the perspective of hampering the imports only. We import only about 10 lakh to 15 lakh bales of cotton in India and that is not a big issue. The bigger issue is once we know that the cotton which has to come from outside will be expensive by 10%. Your local prices have gone up. We have 33 million bales total crop size. It is not a question of 1 million bale import expensive the question is all 33 million the prices have gone up because everyone knows you cannot import and this is the only supply available to the Indian spinning mill today so it is more a concern your domestic prices have increased because you cannot import that is all.

Nirav Savai: Alright got it Sir. That is it from my side. Thank you.

Moderator: Thank you. We have the next question from Monish Ghodke from HDFC Asset Management Company. Please go ahead Sir.

Monish Ghodke: Sir just one book keeping question. You said that average cotton prices Rs.63000 per candy in December and currently also they are hovering at Rs.62000 to Rs.63000 per candy and you said that even in this quarter there will be an inventory loss so how is it happening like could you explain?

Neeraj Jain: 63000 has given you the market price I am not saying this is a Vardhman cost.

Monish Ghodke: But Sir our cost will be mark-to-market as on December 31 right?



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- Neeraj Jain:** No the mark-to-market of cotton never happens.
- Monish Ghodke:** Okay so closing inventory will be valued at cost only you are saying. Okay got it.
- Moderator:** Thank you. The next question is from the line of Keshav Garg from Counter-Cyclical PMS. Please go ahead.
- Keshav Garg:** Sir I wanted to understand that you are saying that cotton industry cannot import cotton but I understand that government had made cotton import duty free and till when it is duty free?
- Neeraj Jain:** It was only until October 31, 2022 duty free.
- Keshav Garg:** Basically Sir to the extent that we are exporting cotton yarn and cotton yarn fabrics to that extent we can still import duty free cotton under the advance authorisation scheme?
- Neeraj Jain:** But in that scenario we lose the RoDTEP and we also lose the duty drawback so that disadvantage is huge because we got the cotton but whatever is the conversion cost where the duty refunds are happening because in form of RoDTEP those are not available to us today so we have gone back to the government with this suggestion also that even if you do not want to reduce the duty why do not you give a RoDTEP on the advance authorisation also. Many case has been committed thing by the government so government is working on that but when they do take a decision I cannot comment on that
- Keshav Garg:** Sir last quarter you mentioned that some Chinese imports they are coming into India from China and now you are saying that China has started importing yarn from India so I am assuming that trend has reversed and now no more Chinese imports are coming to India instead India is exporting to China so Sir is my understanding correct?
- Neeraj Jain:** Sorry.
- Keshav Garg:** Sir last quarter it was mentioned that some Chinese cotton yarn is coming to India.
- Neeraj Jain:** That is not happening now.
- Keshav Garg:** That was all from my side. Best of luck and thank you very much.
- Moderator:** Thank you. The next question is from the line of Resham Jain from DSP Investment Managers. Please go ahead.
- Resham Jain:** Hi Sir. Sir on the fabric business would it be possible to share the kind of mix you have between bottom weight, yarn dyed premix of business and between that what do you classify internally as



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let us say a value added mix within the fabric business? In the meantime I will ask the next one which is more of a book keeping with respect to the gross debt at the consolidated level and the cash at the consolidated level if you can help these two numbers as on December end?

Neeraj Jain:

Can you repeat the question please?

Resham Jain:

Sir the gross consolidated debt and the gross cash.

Rajeev Thapar:

So that is around Rs.1500 Crores including long term and short term and cash investment is close to Rs.2400 Crores.

Resham Jain:

This is both consolidated right Sir?

Rajeev Thapar:

It is being consolidated with Vardhman and retail investment only so it is consolidated.

Resham Jain:

The related question on this is that if I look at the cash balance over the last few years it has been consistently going up and on the other side obviously the capex also is linked to how the industry situation is and I did ask this question a few quarters back also but I do understand that during COVID there were uncertainties and all because this cash is not earning a meaningful returns so how are you thinking about the cash allocation going forward?

Rajeev Thapar:

The cash 2400 which we are talking as of now because the cotton season like Mr. Neeraj has explained that cotton purchase is not being taken place at the pace which we used to have in the earlier years so the relevant figure could be as of the end of the year when the cotton season is completed and cotton buying is completed so at that point of the time the balance does not remain at that level and borrowing also takes place so that is the matter I just want to bring to your notice.

Resham Jain:

Okay understood. If Mr. Mukesh is there should I ask the question again Sir my question was on the fabric business if you can explain the mix within the fabric business how much is coming from bottom weight, how much is coming from yarn dyed from the other woven businesses and how much of the overall fabric business in a way you classify as value added kind of product?

Mukesh Bansal:

On the fabric side our top to bottom ratio is almost 50-55% bottom and 45% is sure sign remains top. So given that if you look the solid dyed is almost like over 70% and 30% to 35%..... would be value added like that. So about 25% would be value added and rest of the items are again in the two categories one is the basic, basic will be about 35% and 65% will be value added which will be further divided 40% will be low value added and 25% will be high value added.

Resham Jain:

Has this ratio changed over the last four to five years?



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- Mukesh Bansal:** Yes there is lot of change because in 18-19, 19-20 when we expanded our capacity we expanded more on the top hand side and on the yarn dyed side than on the solid side so four to five years ago our ratio was most skewed towards solid and towards the government which is now quite balanced so when we grew our business so we did not go in the same category we expanded our product categories also.
- Resham Jain:** The last question Sir related to this change which you explained four to five years back when you did analyst meet you mentioned that the margin of fabric business was around 20-22% so with this change in value added mix and all has this structurally changed obviously quarter-to-quarter it might differ depending on demand but structurally are you seeing your margin profile changing?
- Mukesh Bansal:** It depends whether we are able to maintain the same EBITDA margin or not but structurally we are not seeing any change happening as far as EBITDA margin is concerned but depending upon the market situation the competitive space is changing. We know the percentage coming in the next couple of years otherwise we are trying to maintain the same EBITDA margin that we used to in the competitive situation or the market situation.
- Resham Jain:** All the best Sir. Thank you.
- Moderator:** Thank you. We have the next question from Bharat Chhoda from ICICI Securities Limited. Please go ahead.
- Bharat Chhoda:** Thanks for the opportunity Sir. Sir I just required the capex number for FY2023 and FY2024 and the breakup for the same like how we will be spending that?
- Rajeev Thapar:** For FY2022-2023 the total capex could be in the rage of 600-650 Crores and next year it will be normal capex maybe in the range of Rs.200 Crores or so.
- Bharat Chhoda:** So this 200 Crores would be majorly maintenance capex?
- Rajeev Thapar:** Yes normal capex we call it.
- Bharat Chhoda:** The FY2023 capex has been spent on what?
- Rajeev Thapar:** Spent on company which was eligible for some stake subsidy so remaining amount is being met through own accruals.
- Bharat Chhoda:** No I was saying the breakup for this like 600 to 650 Crores that you are talking about?



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- Rajeev Thapar:** It would be majorly on the spinning side only because where the expansion has taken place 1 lakh spindles and apart from that some normal capex could be there which could be in the range of 100 to 125 Crores for this financial year also.
- Bharat Chhoda:** Okay that is it from my side. Thank you so much.
- Moderator:** Thank you. We have the next question from Nikhil Agrawal from VT Capital. Please go ahead.
- Nikhil Agrawal:** Yes thank you for the followup. Sir this is regarding the Chinese demand so they are importing yarn from India mostly for the export markets or for their local consumption?
- Neeraj Jain:** I think they are doing for both domestic as well as export but primarily they try for the exports only.
- Nikhil Agrawal:** The yarn prices I mean if we look at the quarter-on-quarter numbers your volume have increased quarter-on-quarter but your topline it had degrown so it is because of drop in yarn prices and all and cotton prices so could you quantify how much drop we have seen in Q3 versus Q2 prices?
- Neeraj Jain:** Yarn prices?
- Nikhil Agrawal:** Yes yarn and fabric as well, both.
- Neeraj Jain:** Yarn prices on the higher side had gone to almost 4 dollar 60 cent, 70 cent kind of pricing. Now it is close to about 3 dollar 30 cent.
- Nikhil Agrawal:** Fabric?
- Neeraj Jain:** Mukesh can you share per meter what is the kind of benchmark products what is the price earlier versus now the highest versus now.
- Mukesh Bansal:** That is difficult to say.
- Neeraj Jain:** Any one or two products you can give them.
- Mukesh Bansal:** If you look at the..... is the largest commodity item that sells so last quarter the average price will be in the range of 95 to 97 currently I would say currently in the range of about 77 to 79 so 20% lower than the business of Q3.
- Nikhil Agrawal:** Okay got it Sir and just a last question how beneficial is the Australian FDA that has been signed with the government. How beneficial is it?



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- Neeraj Jain:** Australian FDA if we look at our neighboring competitors like Bangladesh or others so they already had that duty advantage. India had that duty free advantage between 5-8% on the cotton garments so which explains India is a level playing field now but by the way it is not a very huge market there and again changing advantage but yes we are at level playing field and some exports started happening from India as well.
- Nikhil Agrawal:** Okay got it Sir thank you so much.
- Moderator:** Thank you. The next question is from the line of Sandeep Baid an individual investor. Please go ahead.
- Sandeep Baid:** Good evening Sir and thanks for the opportunity. I did not understand the inventory loss for the Jan-March quarter because you said that December average prices were Rs.63000, current prices are also around Rs.62000 to Rs.63000 and you said that you are carrying only one month inventory so the one month inventory that you would be carrying would have been purchased in November end or December so how there will be inventory loss in the current quarter as well?
- Rajeev Thapar:** Rs.62000 is the market price. My cost of inventory is surely higher because we were raising a cotton worth of Rs.85-90,000 in the month of September, October every month we are buying one month at cotton current prices so our average prices are higher than the market price.
- Sandeep Baid:** But as of December 31 you are carrying one month inventory.
- Rajeev Thapar:** The loss or written down value does not happen on cotton it happens on whatever inventory you have finished goods, WIP it happens on that. The cotton or the raw material does not get devalued to that extent. So suppose I have one month of stock available to me which could be the yarn or my work in progress that gets devalued based upon my average consumption rate for that month.
- Sandeep Baid:** I am sorry. I still did not understand. So as of December 31 you are saying that you do not revalue or devalue yarn or the work in progress is that what you are saying?
- Rajeev Thapar:** Yes.
- Sandeep Baid:** Okay so cotton you do not devalue but cotton you are carrying only for a month and cotton was purchased in the month of December only when the prices were Rs.63000.
- Rajeev Thapar:** Suppose in the month of September my cotton is Rs.90000 I am holding one month of stock in the month of October the price is Rs.80000 so which means my average becomes 90000 plus 80000 divide by 2 it is 85000 so my opening becomes 85. Next month my opening one month is



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85000 I again buy one month of stock let us say 75000 so the average of that so my inventory cost will always be higher.

Sandeep Baid: Counting wise you are not following free flow you are following weighted average?

Rajeev Thapar: Correct.

Sandeep Baid: So you are not following free flow.

Rajeev Thapar: No, no it is always weighted average.

Sandeep Baid: Okay understood. Okay thank you.

Moderator: Thank you. We have the next question from Abhineet Anand from Emkay Global Financial Services. Please go ahead.

Abhineet Anand: Yes thanks for the opportunity again. So I think you indicated on the spread currently for 3Q Rajeev Sir can you provide us the spread for maybe cotton and yarn separately average for 3Q?

Rajeev Thapar: Average for?

Abhineet Anand: Average cotton and yarn prices for 3Q or spread whichever is available.

Rajeev Thapar: It will be close to about 60 cents.

Abhineet Anand: Lastly I just want to have slightly not numerical number but something like I just want to understand Indian spinners typically I understand lot of players who manufacture spindle and provide has been stating that India has been one of the countries where the spindle capacity has been increasing versus China which you used to do earlier is not doing much so as an India spindle a few years back and today are we in a better situation worldwide if you can give some qualitative stuff on that?

Rajeev Thapar: I said we are always competitive till the time our raw material prices move up four to five cents so in this period it was almost 15 to 20 cents higher than that and couple of months it was as high as 35 to 40 cents also for the New York Future, against that as on today we have come down to New York Future plus 10 cents so we are better off but our normal margins starts happening whenever it is in the range of 3 to 4 US cents.

Abhineet Anand: Okay thanks Sir. Thanks for the explanation Sir.

Moderator: Thank you. The next question is from the line of Deepak Verma an individual investor. Please go ahead.



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Deepak Verma: So my question is a bit hypothetical let us assume on basis of cotton prices where you assume government has not taken any action how long do you think it will take for in your experience so far I am sure this is not the first time although no situations present itself but in your assessment what would happen how long it would take for the prices to actually come down because for the next crop as well and so on?

Neeraj Jain: In our view it should have come by this time. This is the first time in the history of India where the farmer is holding in expectation of a better price it has never happened in the history of India till now. Three days, four days, five days stocking holding here and there always happen but large scale holding by the farmer where they got prices to match to the last years where the international prices have come down from 140 US cents to 85 cents is unthinkable for anyone but I think they are still holding on to that so this situation has come for the first time and we require to look at how the things go over the next month or so, so in my view the correction has happened in last one and one-and-a-half months to quite an extent and it will take another couple of weeks before this becomes normalized.

Deepak Verma: Couple of weeks you said.

Neeraj Jain: Couple of weeks.

Deepak Verma: Thank you so much. All the best.

Moderator: Thank you. We have the next question from the line of Abhishek Jhunjunwala from KAM Capital Services. Please go ahead.

Abhishek Jhunjunwala: Sir I have been observing the trend and I have been following the quarterly call so I have an observation. Your cotton hedging policy I feel or maybe the Board to look into it. It may require reflection as I have observed that as you end up with lower number of cotton hedging contracts as prices of cotton keeps rising and your cotton inventory volumes goes down so in your process inventory of cotton or the material process is not protected once you have exhausted your hedging contracts so you are left in a scenario with a high price of cotton or the inventory in process but you have exhausted your hedging contracts so ultimately you are left with a high price inventory and no hedging contracts to look after the fall in inventory cost?

Neeraj Jain: There are two ways of hedging the cotton. One is it is a natural way where you can sell the yarn so that is one way but that can happen only for a month or two because the yarn you can sell only for a month or two whereas the cotton you have to buy much larger quantities. In India there is no hedging tool available so the only tool available in India is NCS where the volume is minuscule so you cannot hedge it over here. The third way is to go and hedge at New York Future either when you are physically buying you can sell it on a New York Future so that if the prices goes up you have the advantage of physical cotton that you are losing on the New York



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Future or vice versa if the prices goes down at least you start losing on a physical but at the same time you start getting on whatever you have sold as a future over there. Our thought process is only whenever you are buying and we feel the prices are too high at that stage we try to hedge it by way of selling the New York Future so that whatever situation happens you take advantage of that, but at the same time whenever the cotton is exhausting we have to liquidate the stocks at those levels because in the month of September-October you come to a bare minimum level where the new season will start happening soon and you cannot have the hedging provision RBI does not allow you to have the hedging position unless you have the physical stock availability.

Abhishek Jhunjhunwala: Thank you Sir for the clarification.

Moderator: Thank you. Ladies and gentlemen that was the last question for today. I would now like to hand the conference over to the Managing Director, Mr. Neeraj Jain for the closing comments. Over to you Sir!

Neeraj Jain: Thank you very much and as we have been sharing our thought processes the market has been very, very volatile, the changes are happening very fast so we always tried that whatever in our view if the situation today we have tried to explain to our investors so the two factors one the market is changing both in cotton and yarn, the demand supply, the Ukraine war, the gas prices which is beyond our control and we have to work and operate within that so whatever is our best segment call we are trying to do within. Second is internal operations where you have to look at whatever in terms of selling, buying, producing whatever you can do and I can assure to that extent I think the management is really, really working hard and trying to look at that whatever is controllable or within our hands at least we try to do best over there. So I am sure the things will start improving. It is already started it will continue to improve and we might look at better times in the next one or two quarters, but let us wait and watch for the same. So thank you very much for your confidence into our management and we will keep trying our best and I am sure we will look at a better future soon. So thank you very much for being with us for attending this call and anyone has any questions separately they can talk to our investor cell and to that extent we can reply if there is anything there. Thank you guys. Thank you.

Moderator: Thank you. On behalf of Batlivala & Karani Securities that concludes this conference. Thank you for joining us. You may now disconnect your lines.