K.P.R. MILL LIMITED

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The Listing Department
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SCRIP CODE: 532889

The Listing Department,
National Stock Exchange of India Ltd
Exchange Plaza, Plot: C/1, G Block,
Bandra-Kurla Complex, Bandra (E),
Mumbai - 400051

SYMBOL: KPRMILL

Dear Sir,

Sub: Transcript of the Conference Call held on 06th May, 2024

Ref: Our intimation dated 06.05.2024 - Filing of Audio Recording

In continuation to our intimation under reference and in Compliance with Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find the attachment, the transcript of the aforesaid Conference Call as received from the Concall service provider.

Please take the same on record.

Thanking you,

Yours faithfully,

For K.P.R. Mill Limited

P. Kandaswamy
Company Secretary

Encl: As above

C.B.

"K.P.R. Mill Limited
Q4 FY '24 Earnings Conference Call"
May 06, 2024

MANAGEMENT: **MR. P. NATARAJ – MANAGING DIRECTOR – K.P.R. MILL LIMITED**
MR. PL. MURUGAPPAN – CHIEF FINANCIAL OFFICER – K.P.R. MILL LIMITED
MR. P. KANDASWAMY – COMPANY SECRETARY – K.P.R. MILL LIMITED

MODERATOR: **MR. ARCHIT JOSHI – BATLIVALA & KARANI SECURITIES INDIA PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the K.P.R. Mill Limited Q4 FY'24 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 after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star, then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Archit Joshi from Batlivala & Karani Securities India Private Limited. Thank you, and over to you, sir.

Archit Joshi: Thanks, Neha. Good evening, everyone. On behalf of B&K Securities, I welcome you all to the Q4 FY '24 Earnings Conference Call of K.P.R. Mill Limited. We have with us today Mr. P. Nataraj, Managing Director; Mr. P. Murugappan, Chief Financial Officer; and Mr. P. Kandaswamy, Company Secretary. Without further ado, I'd like to hand over the floor to Mr. P. Nataraj for his initial remarks, post which we can take questions from participants. Thank you, and over to you, sir.

P. Nataraj: Very Good evening to everyone. I welcome you all for the K.P.R. Mill Limited Fourth Quarter earnings call for the financial year 2023-24. The financial year, '23, '24 was a challenging year for the textile industry as a whole. The fluctuation in cotton prices resulting in lower realization or beyond, reduced the demand from downstream apparel companies, increase in energy cost, piling up of inventories, severe competition from competing countries, etcetera were some of the contributing factors. However, embracing the challenges and opportunities, K.P.R. could achieve considerable revenue and profitability with the support of its integral strength.

Aggressive competitiveness, the ability to meet the changing market trend and the supportive garment segment. Its expansion in vortex spinning, strengthening of renewable power resources through rooftop solar power plant and modernization of spinning division to improve quality and productivity further are expected to drive its growth level to the next stage. We are continuously monitoring the textile market conditions still beyond market is under continuous margin prefer and lower demand.

In general, garment orders and Tirupur market is lower compared to previous year, but K.P.R. has good orders on hand. The present brownfield expansion is expected to complete during the first half of the current year, we are waiting for the market to improve to plan for further expansion. We are seeing some improvement in the yarn market during the current year. K.P.R. with its unique strength is processed with requisite in growth sector and the ability to mobilize lever to expedite its expansion plan at any time. With these opening remarks, the floor is now open for a question and answers session. Thank you.

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

Rushabh: So regards to the African operations, we have had a bitter experience in the past. But recently, we have seen that a couple of entities, including an Indian company, they have acquired manufacturing setups in Kenya and Ethiopia. So how is the situation now in terms of feasibility of doing business there? Is it same or is it better, sir?

PL Murugappan: We have set up the manufacturing facility in Ethiopia, where in the particular region, there were some issues, so we have not proposed to go for further business opportunities in Africa right now. You maybe seeing it in the later.

Rushabh: But in terms of doing business there, is it feasible now? Or is it committed a problem that you're seeing?

PL Murugappan: Ethiopia is not feasible, because both Europe and the US has withdrawn the tax when we agreed to extend it to Ethiopia.

Rushabh: So what about Kenya or other African countries? Are we open to doing some business there in terms of -- some of our big customers say so, or we are looking at only Indian expansion going on.

PL Murugappan: Now we are looking at Indian expansions only, not looking at the overseas expansion.

Rushabh: Okay. So any new customers we added in this quarter?

PL Murugappan: Yes. We have added a few customers in the US in a smaller way, like BBB. Some of the new customers also in pipeline we expect it to come.

Moderator: The next question is from the line of Deepak from Sundaram Mutual Fund.

Deepak: I have a couple of questions. My first question is, since the past couple of months, there are talks about UK FTA. Now my question is, is FTA does comes through, what could be your addressable market opportunity in terms of dollar-rupee term for cotton-based basic knitwear apparel. And are we seeing increased inquiry from existing clients such as Primark or Marks & Spencer or prospective new clients in this regard?

PL Murugappan: Presently, the market is more or less stable, not much of new inquiries are coming. The existing buyers are continuously placing the order and they're taking goods. The order portion is comparatively better than the previous period. We are having an order of close to 1,000 plus kind of order INR1,000 crores plus kind of order position. If UK FTA happens, it will be rather advantageous for KPR because we are already in Europe in a big way. It will help us to increase the market share.

Deepak: Okay. And sir, according to what could be the TAM or addressable market, which you are seeing for that cotton-based basic knitwear if that comes through?

PL Murugappan: It's only the UK. The deal is going to happen in the UK only. The addressable market would be UK only. Then we feel it may increase by another 5%, 10%.

Deepak: Okay. And so moving to second question sir, I have seen that whatever EBITDA margin you have shared in the past couple of years, if I calculate your EBITDA on per piece basis, it has jumped from INR30-odd to, let's say, INR40-odd presumably in FY '24. I want to understand, sir, what has caused this delta of EBITDA per piece to move from INR30 to INR40. And is it sustainable? Or will it move back to pre-COVID levels?

PL Murugappan: Sir it is sustainable regards because we have increased the value addition in this segment. We already explained to you like we have introduced full body printing, fabric printing, garment printing, embroideries and other things in the recent past 2, 3 years' time. So slowly, the value additions are increasing in the garment. Even though it's a basic garment, we are adding some value addition then it is resulted in increased margins in the garment segment.

Deepak: Okay. So then it has nothing to do with power consumption cost reduction or gross profit per piece increase. It has everything to do with only value addition?

PL Murugappan: Yes, everything to do with value addition.

Deepak: Okay. Sir, one last question from my end. Sir, what was our total units generated in co-gen for FY '24? And how much was it used for captive consumption in million units?

PL Murugappan: We have produced somewhere around 11 crores units both the wind power and the solar and entirely captively consumed.

Deepak: Okay. So I'm asking specifically for co-gen?

PL Murugappan: Sorry, co-gen, we have produced to somewhere around 32 crores unit. It's unit consumption will be somewhere around 12 crores units for sugar production only, not for the textile production balance is sold in the market.

Deepak: Sir, 32 was full, and I could not hear the captive one?

PL Murugappan: 32 crores units out of which 12 crores units consumed in-house.

Moderator: The next question is from the line of Awanish Chandra from SMIFS.

Awanish Chandra: Congratulation management team on a good set of performance. Sir, my first question is related to garment. So we had 40 million piece production. So can we maintain this run rate? And my related question is the capex you announced for 30 million additional capacity. So will that come into the picture in FY '25, and we will be able to maintain this run rate?

PL Murugappan: Yes, yes, we can maintain this run rate. And we hope that the brownfield expansion is expected to complete in the first half of the year. So second half, we hope it will increase.

Awanish Chandra: Okay. So after -- in the first half, we will have that 30 million additional capacity and we can maintain this run rate?

PL Murugappan: Yes.

Awanish Chandra: This year, we had more million of pieces than the rated capacity. So how much outsourcing we have done or how did we manage this number?

PL Murugappan: Sir brownfield expansion is going on. It is like, it is not a new expansion. Now, in brownfield, we are adding machines because of the production is a little higher.

Awanish Chandra: Okay. And sir, fabric number in rupees and million tons per quarter?

PL Murugappan: Yes. For the quarter, we have produced about 6,861 tons of fabric. 2,285 tons of fabric sold and the value of about INR 66 crores.

Awanish Chandra: Okay, value of INR 66 crores. And sir, whatever we sell outside, everything is processed fabric. We don't sell anything gray fabric?

PL Murugappan: No, we sell only grey. We don't sell only fabric -- processed fabric.

Awanish Chandra: Okay. So outside sales is grey fabric and captives is processed one?

PL Murugappan: Yes. For our own consumption, we process.

Awanish Chandra: And sir last question, sir any other capex we are planning ethanol or sugar segment or anything on the garment different segment?

PL Murugappan: Right now, we are not planning for any expansion as it is. We will inform a lot of extended programs around now in discussion, we will inform you as and when it gets finalized.

Moderator: The next question is from the line of Rajesh Kothari from AlfAccurate Advisors.

Rajesh Kothari: A few questions from my side. One, how do you see the overall demand environment from the garment division perspective, if you can give the country-wise Europe, North America, Australia, in terms of the inventory destocking, is it over? And how is the likely season currently what do you see?

PL Murugappan: We are carrying inventory of about a 1-month stock. And presently, the geographical sales is, Europe around 50%. U.S. is about to 20%, Australia is about 15%.

Rajesh Kothari: Yes, correct. I'm not asking the sales, as I'm saying, how do you see the each market in terms of the demand outlook for this...

PL Murugappan: Stable. Target is Stable. Whatever expansion we are doing in brownfield, we hope that it will be met with the demand.

Rajesh Kothari: I mean are you seeing that basically in the first 6 months itself, you were able to run at optimal utilization?

PL Murugappan: For 6 months, we take to complete the project. We booked in the second half of the year, we will run it at optimal.

Rajesh Kothari: Okay. And typically, the optimal utilization generally in the first 6 months, typically, how much one should assume?

PL Murugappan: First 6 months, somewhere around the same model as we have done this quarter somewhere around 40 million garments.

Rajesh Kothari: No. I'm saying, once your expansion project starts, say, for example, from September, am I right? For the...

PL Murugappan: We expect it to complete by September. So from the second half of -- not exactly. From the second half of the year, we hope that the production will come from the new brownfield expansion.

Rajesh Kothari: Correct. So my question is, during October to March, how much do you think you are likely to produce from this new capacity?

PL Murugappan: Hopefully, somewhere around 45 million garments per quarter.

Rajesh Kothari: 40 million garments per quarter?

PL Murugappan: 45 million garments per quarter.

Rajesh Kothari: Okay. So basically, what we are seeing is. So from 38 right now, your average is around 30, if I am not wrong, correct? From 38 you expect it to go up to 45? 40 to 45, something like that.

PL Murugappan: Yes.

Rajesh Kothari: So in first half before this starts, do you expect 40-some million and then 45 million in the second half, that's how you are seeing it?

PL Murugappan: Yes, first half is somewhere around 40 million and the second half expected to be somewhere around 45 million.

Rajesh Kothari: Okay. And in terms of the overall realization per garment, do you see the new capacity, is it going for more value-added segment? Or do you think the realizing likely to product mix by and large will remain the same?

PL Murugappan: Remain the same.

Rajesh Kothari: Okay. Understood. And in terms of the raw material prices and margin, how do you see that? Are you getting any inventory right now from that perspective, yarn as well as fabric as well as your key raw materials?

PL Murugappan: Inventory stock, you are asking for?

Rajesh Kothari: Yes.

PL Murugappan: We have a cotton stock of about 3 months. Yarn, on average, it's market-driven. We are having a stock of about 10 to 15 days.

Rajesh Kothari: Understood. Cotton inventory, you have about 3 months?

PL Murugappan: Three months, yes.

Rajesh Kothari: And are you seeing any significant increase in freight cost? Or is it broadly manageable?

PL Murugappan: Broadly manageable.

Rajesh Kothari: Okay. And in terms of the competition, how do you see the competitive environment? Are you seeing a very tough environment? Or is it by and large -- how do you treat the competition right now globally?

PL Murugappan: Globally, competition is tight only on the Asian countries like Vietnam, Bangladesh, China and all competing rigorously. So it is same only.

Rajesh Kothari: I see. So the new…

Moderator: Sorry to interrupt you, sir. I request you to come back for a follow-up question.

Rajesh Kothari: This is just last question. So I'm seeing further significant improvement from second half. Maybe this kind of a demand is already tied up with the customer, this kind of supply of the new capacity?

PL Murugappan: No, we won't be tied up in advance. We will do it in the course of the business.

Rajesh Kothari: Got it. Thank you, sir. I will come back in queue.

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

Aman Agrawal: Sir, thank you for the opportunity. Just wanted to get an idea on the EBITDA margin for yarn and garment segment for this quarter.

PL Murugappan: Yarn is about 12%. Garment is about 24%.

Aman Agrawal: If you can explain the decline in margins like yarn, if I'm not wrong, was 15% in last quarter, right, and garment was 27%. So what is the reason for the decline?

PL Murugappan: Being seasoned, there is a little fluctuation in the cotton prices.

Aman Agrawal: Okay. The premiums of cotton stock we are carrying, like what would be the cost of that which we are carrying on balance sheet rate?

PL Murugappan: We cannot disclose the prices on whatever is the cost of material and all. It's only the approximate number only we can tell.

Aman Agrawal: Sir, any reason for the decline in garment market. Is it also like the cotton prices or was there any other factor?

PL Murugappan: No. They are basically the inventory cost.

Aman Agrawal: Sir, we had announced a capex for processing facility, which we are expecting to finish in 1, 1.5 years. So how is that progressing in terms of getting government approvals and like when can we have that processing facility available, which will be, obviously, for our future growth, not for the current, but for the future growth?

PL Murugappan: Yes, it is in progress. We hope that it will be completed as per the plan.

Aman Agrawal: By when do we expect that to complete?

PL Murugappan: I expect it to be first half of 2025-'26.

Aman Agrawal: H1 '26. Are we seeing any impact due to the Red Sea issue or like that is behind us like if you can talk about? Are we seeing any impact of the Red Sea issue like in terms of availability of containers for exports? So just wanted to get an idea on that.

PL Murugappan: Not much of an impact.

Aman Agrawal: Sorry, sir.

PL Murugappan: Not much of an impact and the business is as usual.

Aman Agrawal: Got it. Thank you for answering my question, sir.

Moderator: Thank you. The next question is from the line of Vikas Jain from Equirus Capital. Please go ahead.

Vikas Jain: Yes. Hi, sir. Thank you, sir, for the opportunity. Sir, firstly, if you could comment the 40 million pieces of garment that we did, how much was the share of essentials or full length garments?

PL Murugappan: So it's more or less completely essential. We are into that segment only.

Vikas Jain: So ideally, is it like -- is there any dramatic change in the product mix between -- on a year-on-year or on a sequential basis between last quarter and this quarter?

PL Murugappan: No, sir, more or less the same.

Vikas Jain: More or less the same. Okay. And sir, in terms of garment margins, of course, in lower scenario, which is, say, 26%, 27% margins as well. But on a steady state basis, 24% is something that we should…?

PL Murugappan: It's 22% to 24% is what we can take as a steady margin.

Vikas Jain: Okay. And sir, if you could take -- give a difference between the revenue of sugar and ethanol and the margins there as well?

PL Murugappan: Yes. The sugar division as a whole, the margin is about 28%. Sugar revenue, INR 73 crores.

Vikas Jain: Sorry sir, could you repeat it?

PL Murugappan: Sugar revenue is about INR73 crores for the quarter. The ethanol is about INR150 crores.

Vikas Jain: Okay. And the margins for both the segments individually?

PL Murugappan: Individually, we do not have. The combined margin is about 28%.

Vikas Jain: And sir, just one small request. If you could share these operational details along with the presentation, I believe that could be much better for the investor side. Just a small request from my side.

PL Murugappan: Yes. Actually, it will come in the balance sheet detailing. Maybe in 10, 15 days' time, we'll be publishing it. Anyway, we will discuss with our team and let you know.

Vikas Jain: Yes. Thank you so much, sir.

Moderator: The next question is from the line of Yash from ithought PMS. Please go ahead.

Yash: Yes. Hi, team, and thank you for the opportunity. If you could firstly repeat the capex plan, my line got disconnected. And secondly, I believe a few of the peers are looking at a little slightly more aggressive capex in terms of garment expansion. So wanted to understand what is our strategy over the next 2 to 3 years? Probably of our existing capacity, what sort of capacity are we planning to put up? Yes, that's the first question.

PL Murugappan: We propose to investing in the textile segment only right now and we are waiting for the market to improve. Basically in the yarn segment, it is still carrying a margin pressure. And yarn segment having a margin pressure means in the garment business has to improve, then only the margin will improve. So the garment industry, especially the knitwear industry, is still having order issues. So the market situation is not very comfortable.

So we hope that the things will improve in the coming half of the year, then we will decide on further capex in the textile business. By the time we are doing the brownfield expansion, it will continue. It will be completed sometime in the first half of this year, and it will start giving revenue in first half of the year. Other expansions, we have not decided yet.

Yash: Okay, sir. So brownfield is 30 million, right, if I'm not wrong?

PL Murugappan: Yes.

Yash: Okay, got it. Sure, sir. If I have any other questions, I'll come back.

Moderator: Thank you. The next question is from the line of Ahmed Madha from Unifi Capital. Please go ahead.

Ahmed Madha: Yes, thank you for the opportunity. Just I wanted to understand the garment number a little better for the Q4. If I look at the Q4 volume data, it is roughly 41 million pieces. So how we have been able to do this much volume considering our capacity? I think it is annual near 150 million. So I'm not able to understand how the volume number is so high? Is it -- did we have any inventory or what is...?

PL Murugappan: The sales volume is a little fair because we have some of the inventories have got liquidated during this quarter. Actual production volume is about 40 million and sales volume is about 49 million.

Ahmed Madha: Okay. And we should be able to sustain 40 million in the next year first half?

PL Murugappan: Yes, right.

Ahmed Madha: Okay. And regarding the realization decline about 20% realization decline compared to Q2. So is it just a function of cost cotton price? Or is it a function of any value mix change?

PL Murugappan: More of the cotton price.

Ahmed Madha: Okay. And on the sugar business, I think we had a couple of weak quarters for Q3 and Q4. So I think is it fair to assume that in the next couple of quarters. So that this sugar season, 2023, '24, it will be this and then from next season onwards, which will pick up. How should we think about the sugar business?

PL Murugappan: This is offseason for sugar for the first half of the year will be a little less and the second half being seasoned, it will be a little higher. Overall, we have achieved somewhere around 28% for the year. We hope that the things will be good for the coming year also.

Ahmed Madha: But sir, I'm not able to understand that sugar volume peaks. Why are the volumes down for there? I understand you cannot utilize full capacity, but volumes should be good. What am I missing?

PL Murugappan: Yes. Sir you're right. But what happened is sugar, when we produce more sugar, we have to wait for the government getting started for selling, that way the volume is a little less.

Ahmed Madha: So how much inventory we are taking on as of now?

PL Murugappan: We have Sugar inventory of close to about 150,000 tons.

Ahmed Madha: 150,000 tons. So do you expect that based on your inventory quota as of Q4 and you'll get some volume quota for the next couple of quarters?

PL Murugappan: For two quarters, we will get the release orders.

Moderator: The next question is from the line of Mulesh Savla from Shah & Savla LLP? Please go ahead.

Mulesh Savla: Sir, can you throw a little more light on the FASO activity, FASO business because how it is doing and what steps are we taking to increase the visibility and all those things?

PL Murugappan: In the marketing side, we are taking the next level of advertisement and the sales promotion activities in South India. It is going under -- we hope that it will be increasing the volume and the value also. The theatre and the advisement in the newspapers and the handouts and the in-store advisements those things are all going on. We hope that it will give a good result in the coming period.

Mulesh Savla: By and large, are we now pan-India? Or still we have restricted our marketing efforts towards South?

PL Murugappan: South India only.

Mulesh Savla: South India. Okay. And can you share the top line and EBITDA margin on that particular division?

PL Murugappan: It's not meaningful compared to the volume, whatever we have, but it is close to the top line, and I can tell you, it is somewhere around INR25 crores now.

Mulesh Savla: For the quarter or for the year?

PL Murugappan: For the year.

Mulesh Savla: So I think we need to push this up.

PL Murugappan: Yes.

Moderator: The next question is from the line of Biplab Debbarma from Antique Stockbroking. Please go ahead.

Biplab Debbarma: My first question is on the garment expansion. So has the situation improved in Europe or Germany, for you to consider greenfield expansion environment or the situation is still the same as it was in the 5-6 model?

PL Murugappan: So the situation is still grim. Now both in Europe and especially Germany and all are facing some problems, especially higher inflation and lower demand and other things. We hope that the things will improve. It is because of the world order. We hope that things will improve in the coming period.

Biplab Debbarma: Okay. That's good. And the second question is on your sugar and ethanol production. If normal crushing we need this year, there is a normal crushing season. What is your estimate of sugar production and ethanol production in the financial year if everything remains normal?

PL Murugappan: First half of this year, if you want me to tell you the season, it is expected to be normal. But because of this drought situation in Karnataka and Maharashtra, government asked us to produce more sugar during this season. So the sugar production is higher than the ethanol production, and we expect it to be higher only in the sugar side. So ethanol production will be less. But in the coming season, hopefully, the things will be normal.

Biplab Debbarma: So that's what in FY '25, what do you think would be ballpark sugar production and ballpark ethanol production?

PL Murugappan: We expect to be somewhere around the 2 lakh tons of sugar, it is about the 6-7 crores litres of ethanol.

Moderator: The next question is from the light of Aditya Surana from AMSEC. Please go ahead.

Aditya Surana: I just wanted to know about the volume and revenue split between yarn and fabric?

PL Murugappan: Yes. Volume, yarn 19,000 tons, fabric 2,285 tons. Value for yarn is INR 496 crores, fabric INR 66 crores.

Aditya Surana: Okay. And what is the production number of sugar and ethanol in FY '24?

PL Murugappan: Sugar production in '24 in 1,76,000 tons sugar, 9 crores litres of ethanol.

Aditya Surana: Sorry, for ethanol?

PL Murugappan: 9 crores litres of ethanol.

Moderator: The next question is from the line of Vineeth lambu from HSBC PMS. Please go ahead.

Vineeth lambu: Yes. So looking for FY '24 average realization for garment is around INR170. So this would be -- for the FY '25, this will be the run rate? Or would you expect it to improve?

PL Murugappan: Basic prices are more or less the same when if the cotton prices fluctuates, it will may vary a little. Otherwise, we expect it to be the same line.

Vineeth lambu: So we are expecting it to be around INR170.

PL Murugappan: Yes, around INR170.

Moderator: The next question is from the line of Lokesh Manik from Vallum Capital. Please go ahead.

Lokesh Manik: Sir, my question is on the U.K. FDA. So just to understand if India goes through with the U.K. FDA, does this give you access to the European markets in terms of we have to go directly through to EUFDA. So would you be able to service European markets though the U.K. FDA route with the brands that we are associated with other customers that you are serving.

PL Murugappan: We have to see the final form of the FDA, then only we can comment about it.

Lokesh Manik: But would there be any intercountry duties between U.K. and EU with FDA supply chain ending?

PL Murugappan: We have to see, sir.

Moderator: Thank you. The next question is from the line of Amruta Sane from Wealth Managers India Private Limited.

Amruta Sane: Thank you for the opportunity. I have two questions. First is regarding the garment capacities. As in right now, we have 157 million garment capacity which we are increasing to 170 million garment capacity?

PL Murugappan: 177, correct.

Amruta Sane: So after this, do we have any scope for any further Brownfield expansion or will we have to do Greenfield expansion there?

PL Murugappan: More or less the Brownfield expansion will be completed. Then there won't be the new capacity only.

Amruta Sane: My second question is regarding the ethanol and the sugar segment. As in the ethanol sales are like for FY '24 are around 51% of the total sugar segment. And we see that the margins also have increased in the sugar segment to say about 24%. So FY '25, '26, do we expect the ethanol to continue to remain higher as in the proportion to sales similar percentage?

PL Murugappan: Ethanol will be higher only, but in the coming year, the sugar sales will be a little higher than the ethanol sales.

Amruta Sane: Okay. So the margins might go back to the previous average?

PL Murugappan: So there will be some impact, but not to the previous level.

Amruta Sane: Okay. And last question, what is the order book that we have currently?

PL Murugappan: Around INR 1,000 crores plus kind of order book.

Amruta Sane: Sorry?

PL Murugappan: More than INR 1,000 crores order book.

Amruta Sane: Okay. Thank you.

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

Sunil Shah: Sir, K.P.R. has been one of our portfolio companies for more than 10 years. Sir, just if I observe the way in which we have grown from just pure yarn to fabric and then to value added garments, but in the last 3 years our EBITDA has been in that range of INR1,300 crores mark and PAT has been in the range of about INR800 crores mark.

Now top line has grown from INR 4,800 crores to INR 6,000 crores etc, but our EBITDA margins have come down. So I want to understand is there any structural issue which is causing this kind of thing because 3 years in a row, we have not seen EBITDA consolidate or PAT consolidate. Now Europe is a challenge where about 60% of our revenue or exports are coming through China. US. is about 20%.

So I want to understand, is there anything from the demand side or is there anything from extra new competition? Why are we consolidating at these levels? If you could explain this or make me understand this much better.

PL Murugappan: Basically, if you look at the textile industry as a whole. In 2022-2023, and 2023,-2024 is facing a margin pressure in all sense especially yarn is facing a tough scenario. And margins used to be somewhere around 17%, 18%.

Now it is somewhere around 10%, 12%. So the margin pressure is on the yarn front is causing reduction in the EBITDA percentage, and we were able to pull it down because so if you look at the spinning companies, they are having a very tough time. Because of our integral strength and the fully integrated business model we were able to maintain the profitability even though in the tough times.

Otherwise, the margin pressure is there in every equipment because the yarn -- from yarn to garment, every stage we have a margin pressure because of the integration and the unique manufacturing setups we were able to fully turn up. If the market is turned back, the things will improve substantially.

Sunil Shah: Okay. So we are seeing some challenges on the demand side. That's the reason why we are seeing this consolidation and what is it that is going to change going forward?

PL Murugappan: Basically, the yarn demand need to be improved from the present level to next level. And the garment demand also has to improve because we are being the large player we were able to get orders and to produce more number of garments.

But the small garment players are facing problems. If you look at order position, sir, more or less 30%, 40% lesser than the normal. So the demand for yarn has come down substantially that resulted in the lower margins in EBITDA for the yarn business. So those things need to be improved especially Tirupur is being knitwear cluster of India, the market should improve then only the yarn prices will improve. The other business also will start improving like fabric sales dyeing and other things will improve. So overall market sentiments will improve.

Sunil Shah: So my one more point is that if we see this kind of prolonged demand challenges, could we see many players winding up and moving out of the business and then a few successful strong integrated players will have better opportunity is that a reasonable assumption?

PL Murugappan: Would be possible, sir, but it's not entirely correct because in the spinning industry people investing a lot of money, So they can withhold them for some time.

Sunil Shah: Okay. Globally, China is causing any challenge for us in terms of providing these products to the European and the U.S. market?

PL Murugappan: China is coming as a competitor for yarn and fabric, they are selling it at a discounted prices in the market that causes the yarn margins and the fabric margins.

Sunil Shah: Fine sir. Thanks for this making understand things better.

Moderator: The next question is from the line of Biplab Debbarma from Antique Stock broking. Please go ahead.

Biplab Debbarma: Sir, the margin pressure that you are seeing, is it because of the competition or because the overall demand from our export country is muted. And I'm just trying to understand what is causing this margin pressure?

PL Murugappan: Margin pressure basically because of the lesser demand from the garment manufacturers because yarn needs to be sold to the end users garment manufacturers where the orders are very low, so the demand is not there because there's a lot of -- too many suppliers in the market for us now comparatively lesser buyers.

Biplab Debbarma: That I understood. So the demand for garment is it lesser in Tirupur because of the competition from that Bangladesh and other Vietnam or because of the overall demand, overall buy from Europe has shrunk.

PL Murugappan: Overall demand from Europe is getting affected because of this war.

Biplab Debbarma: So these things may improve as the situation in Europe improve?

PL Murugappan: It is slowly improving.

Biplab Debbarma: Okay. Okay. So the things would be back to normal.

PL Murugappan: Yes back to normal 24%.

Biplab Debbarma: Thank you.

Moderator: Thank you. The next question is from the line of Anush Kumar from Spark Asia Impact Managers. Please go ahead.

Anush Kumar: Good afternoon sir. This is Anush. So I got a question and my question is on FASO. So what is your aspirational targets like 3 to 5 years down the line, what would be the contribution from FASO to be top line? And this is a different business to your existing core textile which is more of a B2C business, and that would be cash burn. So with respect to addition store addition as well as the employee cost. So what is your target in terms of on both top line and bottom line with respect to FASO?

PL Murugappan: So we have a target of about INR100 crores in 3 years' time. And the stores and all are not decided. Now, we are operating on dealer model.

Anush Kumar: Okay then. Thank you.

Moderator: Thank you. The next question is from the line of Pratik Kothari from Unique PMS. Please go ahead.

Pratik Kothari: Yes, Hi. Thank you. Good evening sir. My first question on we are generating quite some INR600 crores, INR700 crores of cash every year in our capex plans, at least in the near term doesn't seem to be so high? I mean, yes, we have increased dividend, but any plans for buyback or any -- are you thinking -- what are you thinking about the further capital allocation from here?

PL Murugappan: Just we are seeing the opportunity, if we get some opportunities, we will be utilizing it. Otherwise, we'll decide the further course of action.

Pratik Kothari: Because even to put up a greenfield, I mean, like we did last year, last time, greenfield government capacity does not require so much capex. So unless we are putting that money in sugar, we might not require such large capex.

PL Murugappan: That's what I'm telling you. We are just waiting for some opportunity because business, we need to invest because it can generate a lot of money. So we are just waiting for some opportunity in the first half. We will decide what to do.

Pratik Kothari: Opportunities on the sugar side or textile garment?

PL Murugappan: Basically, in the textile, in case any opportunity comes in the other segments also, we will look at it.

Pratik Kothari: Fair enough. And sir, I mean, yes, the realizations on garment are lower, but volume-wise, we have grown quite well this year. I mean, from 128 million to 150-odd, this is despite U.S., Europe not lifting as much volume as they used to do a year back or the demand they're not being as good. So what is driving this growth for us? Is it just new customers? Or are we replacing someone different, if you can just talk about how are we outperforming the end market in this year.

PL Murugappan: Being a large player in this segment, especially in the basic garment segment, we were able to compete with the others because others are having some issues in a stand-alone garment units, they have to buy everything from outside. The margin is comparatively lower. So the orders also, the big players wanted to place with the large manufacturers, so that the delivery time and the price competitiveness also will be good. That's why we are able to perform well. We are expecting that we will continue to perform.

Moderator: Thank you. The next follow-up question is from the line of Vikas Jain from Equirus Securities. Please go ahead.

Vikas Jain: Sir, one question from my side. Given the fact that our cotton prices remain stable at current levels, garment realizations for the next year will largely remain at the same pace? Or are there any value additions that we're doing in our overall offerings?

PL Murugappan: We've already done all the value additions we proposed. So expected to be around this level only.

Moderator: The next question is from the line of Dipen Shah our Individual Investor. Please go ahead.

Dipen Shah: I had one question on the cotton side, sir. Could you just give us some more insights on how are the cotton prices currently in respect to the international prices, we are listening and hearing or maybe reading reports that international cotton prices have started coming down significantly. So what impact could it have on our cotton procurement and what are our plans maybe over the next 2, 3 quarters, sir?

PL Murugappan: Actually, the garment being agricultural commodity and the seasonal, and the new season will start from October. Already, the mills would have purchased for this quarter. And the next quarter, they may be purchasing it. The prices of international cotton prices are lesser by about 3%, 4% than the Indian prices. So the import -- where we import the medium staple cottons from overseas, it costs about 5% more, 5.5% more because of the duty. So more or less, the prices are in line with the Indian prices. We don't see much of a traction in that.

Dipen Shah: Okay. So on an average, for the current year, our cotton cost should be similar to the last year, around that much only?

PL Murugappan: The first half instead of full year we cannot predict, the first half expected to be the same.

Dipen Shah: Okay. It's expected to be the same.

Moderator: Thank you. The next question is from the line of Deepak from Sundaram Mutual Fund.

Deepak: Sir, just a follow-up question on garment. Sir, could you please share what was the revenue from just the garment product sales and the incentives which we clock for FY '24?

PL Murugappan: Incentives is somewhere around 7% but the invoice is INR170.

Deepak: Sir, could you repeat again?

PL Murugappan: The incentives includes the 7%. The INR170 includes the 7% incentive

Deepak: Sir I'm asking what was our garment product sales? Because I understand that in your garment, you include your export incentives and some other income as well. I'm just asking what was the garment product sale, which you report in your annual report?

PL Murugappan: Yes, you send a mail, sir, we'll send it to you.

Moderator: Thank you. As there are no further questions from the participants. I now hand the conference over to management for closing comments.

PL Murugappan: Indian textile industry is expected to rebound in the current year and consistent improvement in the domestic demand, lower cotton prices and gradual recovery in exports is an ability to achieve impressive performance, even in difficult market conditions, strategic diversification, adapt to changing market dynamics and a focus on emerging opportunities. K.P.R. stands well positioned to further expand its market share and maintain its consistent growth level. Thank you once again. Thank you all.

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