



Ref. VTL:SCY:AUG:2023-24

Dated: 14-Aug-2023

BSE Limited,
New Trading Ring,
Rotunda Building, P.J. Towers,
Dalal Street, MUMBAI-400001.
Scrip Code: 502986

The National Stock Exchange of India Ltd,
Exchange Plaza, Bandra-Kurla Complex,
Bandra (East),
MUMBAI-400 051
Scrip Code: VTL

**SUB: TRANSCRIPT OF EARNINGS CONFERENCE CALL OF VARDHMAN
TEXTILES LIMITED – Q1 FY'24**

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 09th August, 2023 to discuss Q1 FY'24 results.

Kindly take the same on record.

Thanking you,

Yours faithfully,
FOR VARDHMAN TEXTILES LIMITED

(SANJAY GUPTA)
COMPANY SECRETARY



“Vardhman Textile Limited’s First Quarter FY24 Earnings Conference Call”

August 09, 2023



MANAGEMENT: **MR. NEERAJ JAIN – JOINT MANAGING DIRECTOR,
VARDHMAN TEXTILE LIMITED**
**MR. SUSHIL KUMAR JHAMB – DIRECTOR (RAW
MATERIALS), VARDHMAN TEXTILE LIMITED**
**MR. MUKESH BANSAL – HEAD (FABRIC MARKETING,
VARDHMAN TEXTILE LIMITED**
**MR. VARUN MALHOTRA – HEAD (FINANCE),
VARDHMAN TEXTILE LIMITED**

MODERATORS: **MR. ABHISHEK NIGAM – B&K SECURITIES**



*Vardhman Textile Limited
August 09, 2023*

Abhishek Nigam:

Everyone, this is Abhishek Nigam from B&K Securities. I am the Textile Analyst at B&K. Hi, everyone and thank you so much for joining Vardhman Textile Limited's First Quarter FY24 Earnings Conference Call.

Today, we are joined by Mr. Neeraj Jain – Joint Managing Director, Mr. Sushil Jhamb – Director (Raw Materials), Mr. Mukesh Bansal – Head of Fabric Marketing and Mr. Varun Malhotra – Head of Finance.

And now without any further delay, I will hand it over to management for opening comments.

Neeraj Jain:

Good afternoon, everyone. So, I'm sure everyone would have seen the results.

So, this quarter as expected has not been very good and there has been a continuous pressure on the textile industry, which started about a couple of months back and I think some pain is still there even as of now also. So, keeping in view the same, the results are declared which is showing EBITDA of about 13%-14% for the company and in this period, of course, the utilization, the spinning side has been almost full. The fabric side has been a little lower, which slowly started improving now. So, I think two factors which have been mentioning earlier also that one, the demand at the retail style which still continues to be low. If you look at the import data of USA, Europe, the garmenting etc., there's been a drop of about 20%-25%. So, that's one concern or there's been one fact that the retail demand is less starting from all these political or the issues related with inflation and high gas prices and all and all and all. Second was the supply chain mismanagement, which happened about a year back where most of the brands collected lots of material and they wanted to destock the things. And by and large, that situation is over now, and the day-to-day demand of the brands has started happening for most, I'll say almost 80%-90% brands. There are a few still which want to reduce it further, so eventually that means the 80% demand has started coming back for most of the products, which is some sign of relief for most of the industry. Of course, till the time the entire utilization is not happening fully, the margins cannot improve because there's a pressure of the utilization through everyone.

The third factor, in India, the demand has been relatively less in last couple of months and there's been again some small improvement which we have seen in last couple of weeks, but we are yet to establish whether that's kind of a permanent or there's still only for a small period of time the demand is coming. Though the overall industry the pressure is there, but there are some small silver linings which have started appearing. So, the first silver lining was the better demand of home textile products. Last year when the things have gone bad, home textile was the first one to die down or to where the capacity utilization had come down. But fortunately for last 3-4 months or 2 months, the utilizations and margins are one part. First, we are talking of the demand supply only. So, apparently, the home textile started doing good, both sheeting and towel, the utilizations are far better than what it used to be before.



Vardhman Textile Limited
August 09, 2023

The second segment where we have seen some improvement last couple of week is the woven fabric. So, again the woven fabric, if you look at most of the industry, the utilization has come down to about 70% or so. As of now, we understand or we estimated close to be about 80% and I hope in next one month, 1.5 months, it will be reaching almost 90% plus, which is the normal kind of utilization for the weaving also. On the knitting side also, our estimate is from a worst of about 50%, today we are operating in the range of about 65%-70%. So, there's some improvement, but yes, there is still more scope. And the fourth segment which is still in a bigger problem as of now, it looks like is the denim where the utilization is not more than 50%-55% even today also. But another silver lining is India, the festive season is ahead of us. Next 3 months, 4 months are this festive and the Western world also the festive or the year end is coming in, which is ahead of their festive season. So, hopefully things should be better next couple of months. And so this is in general on the textile demand side.

On the raw material side, this has been again the pressure or the struggle on the raw material side continues. We've seen lower cotton prices in India on the New York Future basis. So, it had come down to a lower side of about 300 to 500 basis points, which again has now increased to 600-700 points as of now. Whenever there has been a lower price of about Rs. 55,000 – Rs. 56,000 rupees a candy, which is kind of almost minimum support price going by the 10% decrease which the government has done. So, practically, the cotton prices, it looks difficult that they'll be coming down below Rs. 55,000 or so. At the moment they start coming to that level, people start moving onto the bottom, so the prices start going up once again. So, we're seeing this quarter the price is moving from 61,000-62,000, coming down to a lower of 56,000 and again now back to about 59,000-60,000 as of now.

The overall crop, there has been a major seesaw in the overall crop numbers for India in this year. So, the original estimate started coming somewhere about 330 lakh bales in between the government agencies or the private agencies, they kept reducing that number, and it was estimated by some of the agencies that the crop may not be more than 290 lakh bales or so, which was putting kind of a huge pressure on the system because imports could not be done because of the 11% duty on the system. But now slowly we are still finding some arrivals coming in from the last season and as of now, it is expected 305 lakh bales have already come in. So, maybe this year crop could be in the range of about 315 to maybe 320 lakh bales, which will be coming to the market because Indian cotton year is from 1st of October to 30th of September, so we're left with about 50 days. So, I expect maybe 320 lakh would be the numbers where this year the arrival could be there. The next year, sowing seems to be good, most part of the world. And definitely, of course, there are some areas where the sowing is a little lower, but at the same time the US is likely to show better numbers because last year there was a huge abandonment of the crop, which may not happen this year. Of course, it's too early to say as of now, but it is only going by the today's situation. The India sowing numbers are good, so the rains have been reasonably good. Whatever excess rains have happened, apparently that hasn't impacted the cotton area in a bigger way. So, probably this year crop could also be good and we can hope



*Vardhman Textile Limited
August 09, 2023*

maybe the crop size could be in the range of maybe about 320 to 340 lakh bales or so, again going by the today's situation.

The only one area the Pakistani crop seems to be good. So, last year they were there. There has been floods, so they had to import lots of cotton and as a result of that, the overall cotton prices kept rising up. The only area where there seems to be a little lower crop expected till now is the China where the sowing is less and maybe they will be lesser by about 10%-15% from their normal crop size in this year.

If you go by the demand supply, there are various agencies which have shown, including the ICAC, USDA, which has shown some improvement in the consumption numbers for the next year, which can happen also. At the same time, even in spite of that, the overall closing stock of cotton is likely to be higher than even this year closing stock, so which means whatever are the production numbers and whatever is the consumption numbers, net-net there could be a possibility of a little increase in the stocks because international cotton season starts from 1st of August. As of now, situation is not very good. So, maybe first 1, 2, 3 months, the consumption could be lower. As a result of that, there could be some addition on the raw cotton side in the world markets overall whether it is in A country or in B country. So, that's the situation on the raw cotton.

In terms of the supply chain, things are quite good. Nowhere there's any issue of the supply chain or the cost increase. So, most of the trades have come down to the normal, the availability of the cargo etc. is absolutely no issues and the demand supply and the supply side in terms of reaching the goods in a particular time, whatever was the normal time, I think that's happening in a normal way. So, there's no issue and concern to that extent only.

So, that's in general my initial comments, I think there could be many more questions. So, let's go along with the question-answer session. Before that, I'll request Mukesh to give a little more idea on the fabric because that's one of our important and the bigger business. So, Mukesh, if you could just give a couple of your more views and the market situation as of now.

Mukesh Bansal:

Yes, Neerajji. Good afternoon, everyone. If you look at last about two quarters, the demand from the international markets was quite muted. There were about 3 reasons for that we can quote. One, of course was the carried over inventory that the brand had. Second was the fear of recession and increasing cost of living because of interest rates and other commodity prices. Third, of course was as the demand was low and the commodity prices were expected to fall down, so everyone is skeptical of valuation losses. So, the order placement was also lower as compared to what they may have otherwise done. So, as a result, the inventory in the supply chain as we estimate is quite near normal now. Even if you look at the numbers declared by some of the brands in the US and we compare their inventory level as compared to their last financial year. So, now, barring few brands, most likely in most of the brands, the inventory numbers are near their long term normal or in some cases they are lower also. And the brands



*Vardhman Textile Limited
August 09, 2023*

are temporarily willing to live with the lower inventory to take care of concerns of the future recession or the prices falling in on the commodity side.

So, out of the three concerns, one was the inventory, which seems to be settled. Second was the bottoming out of the commodity prices. So, that also seems that the commodity prices have bottomed out, whether it is cotton or yarn. And from here on, there is a possibility if the demand picks up, the prices may only go up. So, now after two quarters of muted demand, now the demand is coming up. From the US, it is we will say near normal. Europe is still subdued. UK, the demand is good and other bigger markets for us like Japan and India, they are also we are seeing the demand revival happening. Particularly India, the period from end of August till December, it is particularly festive season and also the marriages. So, that is the peak time when India retail happens. So, all the brands are geared up with new inventory, new styles to take on the consumer demand, which everybody is expecting the demand is likely to be good. And now with the prices also being near normal, there is no fear that if they place demand today, they place orders today, the prices may fall tomorrow. So, it looks like the worst is behind us and as compared to Q1, the capacity utilization is also improving. So, hopefully things will turn out to be better. That's from my side, Neerajji.

Neeraj Jain: Thanks, Mukesh. So, can we start the question answer please?

Abhishek Nigam: Sure, Sir. Thank you so much for the opening commentary, Mr. Jain and Mr. Bansal and now we will open the floor for questions.

Abhishek Nigam: So, maybe I can ask the first question. So, there has been an FTA with Australia now and you know I'm just wondering if people are now starting to import cotton from Australia, which will be without duty to sort of lower the raw material prices. So, is that happening in a big way now?

Neeraj Jain: There is a limitation of 50,000 tons duty free cotton which can come to India, which is barely about 300,000 bales only. So, since this quantity is limited and the quota system was implemented by the government of Australia, where they had given it to their shippers to decide, they have given this quota to their shippers. So, eventually the shippers in Australia, they have increased the basis for India. So, practically, the advantage of duty-free cotton to India is not available because it's only 300,000 bales and they have increased the prices to almost the same level where we will not get any advantage of the duty free, but practically the cotton remains same what you have, otherwise you can import to India and by paying the duty, so practically zero advantage to India even if the FTA happened.

Abhishek Nigam: That's very interesting. So, we have the first question from the line of Abhineet Anand. Abhineet, I've unmuted your line. Please go ahead.

Abhineet Anand: On this spread, what has been our cotton yarn spread for the quarter, sir?



Neeraj Jain: Almost in the range of about \$0.55 to \$0.60 only, and that continues even now also because as I mentioned, since the downstream industries are not doing very good and still everyone is trying to ramp the capacity with the higher cotton prices. So, the spread continue to be in the range of about \$0.55 to \$0.60 only.

Abhineet Anand: Second thing is that I think 2 things you had highlighted in your earlier calls also one was the differential in Indian and international cotton and second was that improved duty which was the reasons why apart from the demand part which is obviously there, reasons why you were not expanding beyond the current expansion that had happened, right. So, with present scenario where the differential has come down to mid-single digit, any thoughts on that sir?

Neeraj Jain: Whenever we are expanding, I think the call has to be taken for a longer period of time that what is the likely scenario for next couple of years, it can't be on a quarter-on-quarter basis because you are spending the money for next 15-20 years. I still have two concerns in my mind. One concern is the import duty, which will always force us to have a higher basis for the Indian cotton compared to the international because there you can't import. So, even if a crop is not good or things are not good, you can't import because by paying 11% duty, you're virtually out of the system. So, that's been one concern. Second concern comes from the minimum support price. The minimum support price as of now has become almost Rs. 55,000 – Rs. 56,000 per candy for the Indian market, which is like. So, in case the New York Future remains about \$0.80-\$0.82, I think it may still not hurt us, but anywhere it starts coming down to \$0.75, \$0.70, then Indians will have a huge disadvantage compared to the rest of the world because then we will be caught up with the minimum support price. Now these are the two challenges, unless the minimum support price is now, so nothing much could be done to that extent, but unless we have a flexibility on the import duties, I still feel the permanent solutions are not there and suppose tomorrow this duty continues for a longer period of time, that always be a concern for us why to spend how to spend I think that concern is still there in our mind. We're still waiting and watching till the time the final design is taken on the seat.

Abhineet Anand: And so in the meantime, if we are largely full on the spinning side, as you said, can there be small bottlenecks etc. which can help us in slightly higher?

Neeraj Jain: That's being done everywhere. So, wherever there's a possibility by doing some modernization or some debottlenecking, that's always been done. So, that's one area where in spite of whatever difficult time we had in the last year, so rather my modernization budget for the year is one of the best. So, over there, we have no issues because whatever capacities we have, we want to run it as efficiently as good as the best spirit we can. So, over there, modernization, debottlenecking, or augmenting it, absolutely, we're not even thinking it even for a second.

Abhineet Anand: So, for '24, if one has to see '23, you added around that 1 lakh spindles. So, on average, if one has to assume one is that addition of around the lakh spindles plus this modernization, how much volume can increase in 24, assuming there is demand?



*Vardhman Textile Limited
August 09, 2023*

Neeraj Jain: So, I mean two factors, one is that we have added this capacity and second also last year there was some partial capacity which was stopped on the spinning side. So, my belief, both things taken together, there could be a possibility on the spinning side 15% to 16% topline growth.

Abhineet Anand: In volume terms?

Neeraj Jain: The value has been coming down, so I can't predict on that, but I'm only talking on the volume side. So, 10% to 15% would be possible to do in this particular year.

Abhineet Anand: And on the fabric side, sir, how do we see? You obviously did highlight that the utilization is improving there. So, any thoughts on there, what was the utilization now and over the next two quarters where it can go?

Mukesh Bansal: During the Q1, our utilization was about 70% and Q2 will be in the range of about 88% to 90% and Q3 should be 90% plus.

Abhishek Nigam: Thank you, Abhineet. We have the next question from the line of Falguni Dutta.

Falguni Dutta: How do you see the spreads compared to Q1 in Q2 and Q3? I mean directionally how much higher do you see them to be?

Neeraj Jain: So, actually, this spreads Q2 would be if I talk of the spinning could be even a little lower than Q1 because in this period if we look at the yarn prices, that kept on coming down. So, we started last year from a price of about \$4.5 for a pound. And slowly, as of now, the price is \$3.10, so the price has been coming down only. And whenever the prices are coming down, you have the advantage or disadvantage that you have booked something at a little better prices which will keep coming down on month-on-month basis. We talk of these spreads for the Q1. That may be almost comparable to the fourth quarter of last year and Q2 would either be comparable or little lower only. Because the prices of yarn have been continuously coming down, there is no instance of any improvement in the yarn prices till now. So, it's only one way direction because the downstream industries were not doing well. It's only last couple of days where we started finding some small demand improvement in the domestic market. The prices have not improved, but once I'm sure once everyone is booked on the yarn side, probably it's only that the prices could improve. So, if you look at Quarter 1 or we are looking at even quarter 2 as of now I'm saying, these spreads are not likely to improve. It is only coming down at all.

Falguni Dutta: Sir this is just for my understanding, assuming the cotton prices remain where they are. If we see an overall improvement in garment demand, then can we assume that the yarn prices could go up and so the spreads?

Neeraj Jain: Of course, yes because it's only as of now spinning is trying to run the full utilization in India, they are exporting reasonably well. They are trying to sell it in India. So, their margins are under



pressure because downstream is not working on 100% capacity utilization. The moment we start finding the downstream industry also in the normal utilization spread is surely likely to improve. But at the same time, it is not as of now, that's not the situation.

Abhishek Nigam: So, the next question is from the line of Awanish Chandra. Awanish, can you go ahead?

Awanish Chandra: I will just build on the same question. Sir, you mentioned that spread remains the same what we had in quarter four and then yarn prices is also coming down. So, mathematically our margins would improve rather than going down. And so that mathematics, if you can just detail for us?

Neeraj Jain: How will the margins improve if the yarn prices are coming down?

Awanish Chandra: Spread is same, right more or less quarter four and Quarter 1 and my realization is going down. So, spread by realization mathematically some optics?

Neeraj Jain: So, when we talk of spreads, we talk of the spread means the difference between the cotton prices and the yarn prices. That's the spread. It is generally talked on the textile or on the spinning side. I'm not saying in terms of spread means the margins on the sales, I was not saying that. So, the spread is the difference between cotton and yarn prices. So, it is coming down only because the yarn prices are coming down. So, suppose earlier I've sold yarn at \$3.30, then I've sold at \$3.20, then \$3.10. My cotton remains almost similar cost, then practically my spread is coming down only on a every month basis. And till the time the prices of yarn are going down, so now the yarn prices are stable. So, once it starts going up, then only the spread will improve. So, in this period, whenever the prices are going down, the spread every month will keep coming down only assuming same raw material prices.

Awanish Chandra: And the situation is continuing the same thing what we have seen in first quarter?

Neeraj Jain: As of now, yes.

Awanish Chandra: So, practically though, no chance of margin improvement till half of the quarter 2?

Neeraj Jain: I can't say that, I'm saying it's a today's situation. As Mukesh mentioned last 2-3-4 weeks, we are finding good demand on fabric side. So, if things start improving, it can improve. But yes, today's situation not really show any substantial improvement in the system.

Awanish Chandra: And sir, you have already explained everything related to your thought process on CAPEX and you highlighted your two concerns. But if these two concerns on MSP side and import duty side remains as its, then we will decide not to grow from here?

Neeraj Jain: No, that's not the answer. But yes, it may take some time because there are two factors looking at it. One, the overall things look good. I forgot to mention which I mentioned earlier also. The



*Vardhman Textile Limited
August 09, 2023*

thought process of most of the Western world on China Plus One continues. I have visited USA 3 weeks, 4 weeks back met lots of big brands and that there thought process seems to be quite good and quite consistent. They are looking at China Plus One. So, they want to come to India. The only concern will be your question will be whether the country will be in a position to give them what they want or not, one. Number two, if they continue to come to India, there could be a situation for maybe a year or two where the things are continuously bad for Indian markets. Maybe some of the capacity will go off, unfortunately right or wrong if the things are not improving and if 7%-8%-10% capacity is under question mark or goes down, probably there'll be again. This is a situation where our concerns are legitimate as of now, in our view, and having said that, it's not that we will not be expanding. And we being a very conservative company, we have been a little more extra conscious and we want to wait for a couple of quarters before we start expanding in a big way so that we are very sure of what we are doing. That's all. So, it's nowhere we are saying we'll not be expanding at all.

Awanish Chandra: Understood. And sir, last bit you talked about Australia FTA thing and there is no advantage as far as RM is concerned. But when we export, there we have advantage, right?

Neeraj Jain: So, eventually Australia is not a country which will be buying yarn or which will be buying fabric. They'll be buying garments only. So, our advantage will come indirectly to us whenever the garment starts exporting. So, the garment will require good fabric or good yarn, so which we will be in a position to supply to them in India. So, that's the advantage, which surely should come in, but I think slowly as those businesses start coming in will take some time and that advantage will come slowly. But on the raw material side, unfortunately because of very small quantity and the quotas being given to their shippers, that advantage couldn't be passed on to India.

Abhishek Nigam: Thank you, Awanish. The next question is from the line of Yash Tanna. Yash, can you go ahead please?

Yash Tanna: So, my first question is related to the spreads. So, if we see downstream, our garment players are indicating towards H2 recovery in demand and I think even you mentioned some bit of it. So, my question is what are the spreads that is required for us to go back to the historical range? And let's say if demand revives in H2, do we expect even our margins to improve with the revival?

Neeraj Jain: Generally, the spread for the cotton spinning are always in the range of about \$1, so \$0.90 to \$1 and definitely if the demand improves not only in India worldwide, there could be a possibility because this has been a long-term kind of a spread. So, \$0.90 to \$1 can be done easily if things become normalized.

Yash Tanna: And sir, at those spreads, what will our margins be?



Vardhman Textile Limited
August 09, 2023

Neeraj Jain: Historically, our guidance has always been about 18% to 20% EBITDA margin. If we start achieving \$1, probably we will be reaching close to that.

Yash Tanna: And my second question is relating, so you mentioned in the opening comments about home textile revival, I missed that part. Can you please give an overview of how home textiles have been improving and their capacity utilization and what is the reason why home textile is improving versus the other subsegments?

Neeraj Jain: So, if you look at it, there are two ways of looking at improvement. One is the margin improvement, second is the capacity utilization and my belief, any commodity business if the utilizations are improving, eventually margins will also improve because your costs come down and as you are full, your capacity to negotiate better prices also improves. There is definitely an improvement in the overall utilization of home textile in last 2 months or so. And if you look at their results also, most of the companies which have declared they've shown decent results and there's definitely an improvement from their corresponding periods for most of the companies. There are two reasons I think in my view. One, as I mentioned up here also if you look at the travelling data, if you look at the overall flight data, there are definitely improvements. So, which means home textile is directly related with tourism as well. So, if things are better, so it's a better too. Most of the brands which would have exhausted the stocks, they started giving the orders again so that that could be one area where the improvement is happening. Third specifically in my view, if you look at, Pakistan is also one of the big player in the home textiles and last year, last couple of months Pakistan, both politically and the textile industry is not doing very good. So, eventually that advantage also coming to India and to the rest of the world where people want to have more say for supply chain management, so probably that would be also one of the possible reasons where these orders are started coming to India. Fourth, if you look at the last year chain, home textile was the first one where their capacity utilization has started dropping last year. And the remaining downstream industry, whether that's knitting, fabric, it was almost two months, three months later we started finding the same pressure. So, eventually I think the cycle is almost kind of 8 months, 9 months where their utilizations were bad and they started improving. And if I look at the woven fabric, almost similar time, so we were good till about two months after the home textile was down. Probably now we have started improving, so I don't know whether it's a correlation or it's a coincidence or whatever it is. But practically, I think as the destocking process is over, they started ordering more goods from the vendors.

Yash Tanna: Right, sir. Thank you. And one last question if I may. So, in your experience, do you think that these spreads that we're operating on \$0.55 - \$0.60, below this spread, it will be unviable for a lot of us to operate and we might be near the bottom and even the raw material prices are stabilized, So, what are your views going ahead on the spinning side?

Neeraj Jain: So, your idea is absolutely right, below \$0.50-\$0.55, it may start making sense for this spinner to reduce the capacity rather than keep producing. So, because the design is only that spread including your fixed cost, whether you are in position to cover part of the fixed cost or full fixed



cost or not. So, eventually, if the prices of raw material increases or the yarn prices go below this, it will be difficult for the spinner to continue the operation and once there is a cut on the production side, probably again, some dispute could come in, one. Number two, it is also to be related with international market. Today, New York Future is at about \$0.84 - \$0.85 and the cheapest cotton will be available to Vietnam. I'm talking of the big spinning countries, so they'll be getting cotton at close to about US \$0.98 - \$0.99 or so. There, clean cost will be in the range of about \$2.70 - \$2.75 and today they are selling the yarn at about \$3.30, which is made out of the American cotton, so practically getting a spread of about \$0.65 only, which is also very less. The moment prices goes up or the yarn prices come down, so it's not only India which will be unviable, the other parts of the world also will stop dropping the productions. So, practically, this is kind of one of the lowest margins. And if let's say the price of cotton goes up by another Rs. 3,000 – Rs. 4,000 a candy or the yarn prices come down by another \$0.20 - \$0.25, probably people will start looking at stopping part of the capacity to reduce the losses.

Abhishek Nigam:

Great. Thank you, Yash. The next question is from the line of Roshan.

Roshan:

So, I just wanted to understand the volumes that shifted to India from Pakistan. Are they sustaining right now?

Neeraj Jain:

As of now, yes. So, Pakistan had two problems last year. One was there were floods, so their cotton crop got damaged. As a result of that, they were hit very badly because they had to import cotton, which was at very expensive prices. Two is a political turmoil. So, the first problem is relatively over where the new crop is started coming in and their prices are aligned to the world markets as of now. But the second part continues to be concerned where it's not my view I'm saying, when we talk to our customers, probably lots of them or many of them feel that they want more of a stability in terms of the political environment also because these are all brands which takes longer period of time to adjust or to decide on their supply chain management. So, I think that part still continues to be in favor of the deal.

Roshan:

And another question was, has there been any spindle capacity addition domestically or globally? If yes, is that a cause of concern for us?

Neeraj Jain:

The spindle capacity increase, every year happens in the range of about 4% to 5%, and that has happened last year also. Rather last year, the expansion because of the good margins was relatively higher, so both short spindles as well as open-end converted on the ring spinning, the overall expansion as per the ITMR data is in the range of, maybe about 6.5%-7% of the installed capacity, which normally happens in the range of about 4%-4.5%. So, practically we have added about 2%-2.5% additional capacity, which has definitely given one concern. On the top of that, the demand was less. So, I think whatever excess capacity which got created has definitely given some issue, at least the year gone. So, till the time the demand normalizes, this is a concern too. And this year, also because most of these projects were announced 2 years back where the advances were given, construction was started. So, if I have my own experience talking to or



working with most of the machinery manufacturers, they are likely to give reasonably good quantities of machinery even this year also. So, these guys, if you look at Lakshmi, Rieter, Truetzschler, all these vendors during '21-22 they sold whatever their production manufacturing capacity, so they booked the advance orders for about 2.5 years at that stage, which they have been supplying. So, they had a very healthy order book at that stage for about 2.5 or 3 years, which has slowly been coming down. So, if we look at this particular year, my belief the 4%-4.5% expansion will happen even this year also, but yes if this situation continues, the next year there are no new orders are coming to them as per the verbal discussion we had with them from time to time. So, practically, the next year the drop will start happening, but whatever projects were conceived 2 years back, I think by and large, for example, we also added about 100,000 spindles in March or April this year. This was all conceived 2 years back where the work was going on. So, this year I believe maybe the normal expansion will happen even this year also.

Roshan: That was helpful. One final question from my end. So, any color on the UK FTA timeline?

Neeraj Jain: No idea.

Abhishek Nigam: Thank you, Roshan. Meanwhile, sir, if I can just slip in one or two questions. So, starting off with the quality control order which has been in the news for a while and what I'm seeing now is about what the government has done is they've probably postponed this by three months or so, but overall, what are your thoughts in terms of how will this be implemented and is this practical at all or not?

Neeraj Jain: Sushilji, can I request you to answer this please?

Sushil Kumar Jhamb: The Government of India has deferred this for another three months. The way the objections are coming out, probably it will be further extended by next three months, then after that the government would take a decision.

Abhishek Nigam: Fair enough. So, but how practical is it, given how unorganized we are, how do we really implement this on the ground?

Sushil Kumar Jhamb: No, as far as the ginning mill is concerned, they can definitely do it, but at the moment we do not have the requisite number of labs which would test that material. That's why the government has deferred it. Probably it will take more than a year or so to those labs and then maybe it gets implemented.

Abhishek Nigam: So, my question is that it's a very valid concern that the import duty on cotton has to go away before you are able to sort of take that decision of expanding capacity. Now the problem is we have elections in India next year, which is another 10 months or so to go and the import duty may not go away for another 8 to 10 months or so?



*Vardhman Textile Limited
August 09, 2023*

- Neeraj Jain:** We have to live with that then.
- Abhishek Nigam:** So, is there something that could change and that sort of helps you go towards that space where you can make that decision in in terms of a higher level of demand or lower machinery?
- Neeraj Jain:** Of course, yes. These are all dynamic words. So, I mean in this kind of scenario where the overall pessimism is there, that's one part. So, which is not really a big concern for me because eventually, whatever is happening with everyone in the entire world, things will get sorted out. It's a matter of three months, six months, nine months. So, I'm really not worried on the same. Our concern is if things are better and still India is not doing good because of the challenges we are creating for ourselves, then what happens. But in spite of that, I think wherever the demand is good or there are the commitments from the customers or the customer wants to come in, there is a possibility for us to do a better margin business. We're still open to that idea.
- Abhishek Nigam:** Fair enough. That's very helpful. We have the next question from the line of Abhineet Anand. Abhineet, if you can go ahead please.
- Abhineet Anand:** So, just a small clarification sir. Cotton must be at an average of 57-58 last quarter, which implies around Rs. 160 per KG, right? And you are saying that your spread was around \$0.55, which is Rs. 50. So, just trying to understand the maths that, I mean yarn must be more than must be in 250-245 range, right?
- Neeraj Jain:** Yes.
- Abhineet Anand:** So, that spread would have been higher. Correct me if I'm wrong, 160-165 at cotton and yarn must be 250, so that number should be on a gross number should be 90-95, right?
- Neeraj Jain:** Yes, but again, whenever we are talking of this spreads and the cotton spinning, one has to look at the cotton cost net of all the wastages because to make one Kg of yarn, you require about 1.38 Kg of cotton.
- Abhineet Anand:** So, you are saying adjusted to that?
- Neeraj Jain:** Yes, it is always adjusted to that. Adjusted to that and reducing the cost of sale of whatever wastages could be sold. So, there's always net of type.
- Abhineet Anand:** And second is that when you have given example of Vietnam, you said around that \$0.84 in US becomes 98-99 which is basically the shipping cost etc. you are trying to baking it, right?
- Neeraj Jain:** Yes.



- Abhineet Anand:** And lastly, since we had another income of almost Rs. 92 crores this quarter, can we have a breakup of that?
- Neeraj Jain:** Other income of Rs. 92 crores?
- Varun:** Varun, this side. So, out of Rs. 93 crores, so 47 is basically the other operating income which includes the FX gain and other than that, the remaining part is basically the investment income.
- Abhineet Anand:** So, there is a 4x gain of Rs. 47 crores, but that is an open..
- Varun:** Not entirely Rs. 47 crores, almost Rs. 20 crores of FX gain. But there are other elements like government grants and subsidies.
- Abhineet Anand:** So, that is in line with what we sell and all right, the benefits that we get?
- Varun:** Yes.
- Abhineet Anand:** So, the only incremental or one-off thing is the 4x gain of 20 crores. And what this related to directly?
- Neeraj Jain:** So, whenever every quarter there has to be a mark-to-market or whatever forward contract we have done because we keep selling at that time based upon our selling of yarn, the Forex position is taken. But every month, we are supposed to do the mark-to-market of that. So, depending upon at what price the US dollar or the rupee is closing on a particular quarter, there could be some gain or loss to that extent.
- Abhineet Anand:** And for '24-25, what could be the average maintenance CAPEX sir?
- Neeraj Jain:** In my view, '23-24.
- Abhineet Anand:** Yeah, I'm saying for the two years, 24 and then 25.
- Neeraj Jain:** Our earlier thought was that it should be in the range of about Rs. 250 crores per year. But now looking at the possibilities of a deep bottlenecking or the obsolescence or the improvements happening in the system, I feel personally it could go in the range of about Rs. 350 crores to Rs. 400 crores for both the businesses together on a yearly basis.
- Abhishek Nigam:** I have a question from the line of Falguni Dutta. Falguni, go ahead please.
- Falguni Dutta:** So, we have mentioned hedges in the notes to accounts. So, these are what? Do we sell yarns? Is this selling of yarn the hedges?



*Vardhman Textile Limited
August 09, 2023*

- Neeraj Jain:** No, this is the forward contract. It just means whenever we sell yarn simultaneously depending upon our view, we try to cover the foreign exchange also. So, these are those hedges.
- Falguni Dutta:** So, these are just Forex hedges?
- Neeraj Jain:** Yes.
- Falguni Dutta:** We don't do any hedging. There is no possibility of like let's say selling yarn no like suppose if we are in a situation where we are seeing yarn prices falling, there's no possibility of selling the yarn in futures against the...
- Neeraj Jain:** No, there is no yarn future, so we can hedge either foreign exchange or cotton. So, in this period the cotton was not there. Of course, we keep taking those positions from time to time, but there's no way you can hedge the yarn.
- Falguni Dutta:** So, I missed you on the cotton. So, what can you do in cotton, I mean Forex you hedged but..
- Neeraj Jain:** So, cotton you can sell your future or you can buy on the New York Future, so you can do. The MCX is also there, but unfortunately the volumes are not there, so nobody can hedge actually practically on the MCX, but you can do that on New York Future.
- Falguni Dutta:** And do we generally do that?
- Neeraj Jain:** We sometimes, if we have a very strong view or we take a larger position, sometimes we do that.
- Falguni Dutta:** So, sir, just if you can pardon my not understanding if you can just explain how does this become a hedge in that case because we as it is have cotton stocks, So, what do we do against that?
- Neeraj Jain:** So, suppose I want to buy cotton today because cotton is seasonal and most of the cotton has to be bought in the next 3 to 4 months' time. If I'm bullish on the cotton prices, then probably I may not do the hedge, but at the same time, if I'm buying cotton and I feel the prices can go down, but at the same time I still have to buy it because this season is available only in this, then the only choice is either I buy a quote or I sell the New York future. On New York Future there may not be 100% correlated, but directionally it will be same. Which means if the cotton prices goes up, I have an advantage on my physical inventory and I have a disadvantage on the future which I have sold or vice versa.
- Abhishek Nigam:** Anil, I have unmuted your line. Can you go ahead please?
- Anil:** Sir, I want to ask what is the present capacity utilization of spinning and fabric and what do you understand, any color on the future, second half? What do you think about the capacity utilization in the coming quarters?



*Vardhman Textile Limited
August 09, 2023*

Neeraj Jain: Our capacity utilization on the spinning side is almost full. On the fabric side, it used to be 70%. We are hoping by the end of this quarter it will be 90% plus.

Anil: Right. And what do you think about this in the second half?

Neeraj Jain: I hope this should continue on a better utilization basis.

Abhishek Nigam: So, I'll just slip in one last question before we close this call. Just wondering and 6 months back there was a lot of noise around what all the government is doing in terms of MITRA Parks. There was a PLI scheme for government thing and the UK FTA and all those things. Now what we're hearing is that the progress on most of these has been fairly slow. So, for example, even where MITRA Parks have been announced, there has not really been land allocation and the process is not really underway in a big way. So, overall, is that impression correct and what are you hearing in terms of these developments, whatever you can share with us?

Neeraj Jain: I think since my view, whatever decisions the central government has to take, probably that happens on a faster basis compared to whenever you have to involve the state governments because they have their own processes. So, it's not that they are not doing or they are going slow, but I think it's only the processional issue where you have to involve the state governments and they have their own issues, formalities, land acquisition is not very easy today and that's the kind of thought or the delays which are happening. But in terms of thought process, looks difficult for me to say the thought process is gone, undergone a change or it's a slow from the government side. I don't think so, but yes, whatever the formality of the states, they have to do, probably that's in India, the land acquisition, those things have always been a concern. So, which is a time-consuming kind of a thing, so which the various state governments are working.

Abhishek Nigam: Fair enough. So, overall, very informative discussion today. Any closing comments you want to leave us with in terms of how things look over the next 2 to 3 quarters?

Neeraj Jain: So, I think this quarter seems to be or continues to be under pressure. But as we are looking at some improvement on the downstream industries, I can only hope things will start becoming better from third quarter onwards. But that's only my hope as of now. So, we have to keep watching this situation very carefully and whatever is happening, we have to really accept that, but it's a hard part of life, but at the same time, it's a factually true, but only I can say that whatever internally could be done, we are really working hard to look at that this difficult time should be passed through in a better way so that whenever the good time comes in, the organization is ready to take advantage of that as well. So, I'm thankful to all our investors, all our friends who have faith in the company and I'm sure it's a matter of time as the thing starts improving, the overall situation or the business will also improve.



Vardhman Textile Limited
August 09, 2023

Abhishek Nigam: Great. Brilliant. So, that brings us to the end of this call. Thank you so much to the management for this insightful discussion and thank you so much everyone else for joining us today for Vardhman Limited's First Quarter FY24 Earnings Conference Call.

Neeraj Jain: Thanks guys. Thanks B&K to organize this.

Abhishek Nigam: Thank you.