Vardhmān
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VARDHMAN TEXTILES LIMITED

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SUB: TRANSCRIPT OF EARNINGS CONFERENCE CALL OF VARDHMAN TEXTILES LIMITED – Q4 FY22

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 23rd May, 2022 to discuss Q4 FY22 results.

Kindly note and display the notice on your notice board for the information of the members of your exchange and general public.

Thanking you,

Yours faithfully,
FOR VARDHMAN TEXTILES LIMITED

VARDHMAN TEXTILES LIMITED LUDHIANA

(Sanjay Gupta)
Company Secretary

"Vardhman Textiles Limited Q4 FY22 Earnings Conference Call hosted by Batlivala & Karani Securities (India) Private Limited"

May 23, 2022

MANAGEMENT:	**MR. NEERAJ JAIN – JOINT MD, VARDHMAN TEXTILES LIMITED** **MR. SUSHIL JHAMB – DIRECTOR (RAW MATERIALS), VARDHMAN TEXTILES LIMITED** **MR. MUKESH BANSAL – EVP (FABRIC MARKETING), VARDHMAN TEXTILES LIMITED** **MR. RAJEEV THAPAR – CFO, VARDHMAN TEXTILES LIMITED**
MODERATOR:	**MR. ABHISHEK NIGAM – BATLIVALA & KARANI SECURITIES**

Moderator: Ladies and Gentlemen, Good day and welcome to the Vardhman Textiles Limited Q4 FY22 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, please signal an operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhishek Nigam from Batlivala & Karani Securities. Thank you and over to you, Sir.

Abhishek Nigam: Thank you. Good evening everyone. On behalf of B&K Securities I would like to welcome all of you for the fourth quarter FY22 Results of Vardhman Textiles Limited. Today, we have with us senior management of the company including Mr. Neeraj Jain – Joint MD, Mr. Sushil Jhamb – Director for Raw Materials, Mr. Mukesh Bansal – EVP for Fabric Marketing and Mr. Rajeev Thapar who is the CFO and I would now like to hand over the call to Mr. Jain for opening comments.

Neeraj Jain: Thank you. Good afternoon everyone. I am sure the results would have been seen by all of you so as expected the fourth quarters numbers were still okay since the market at that stage was stable the prices of cotton were still not very high till the fourth quarter and in line the business the results are in line with the I think the working which was happening in that period

So, there has been one or two major expenditure which has been booked in this period. So, one is hedging lot of loss of about 60 crores. When we were buying cotton at the starting of the season we felt prices are too high because it was the start of the new season and we were covering the cotton physically so we tried to hand it over New York future by selling in the New York future so that in case if prices comes down at least that action could be an advantage there would be a hedging, but unfortunately the market was going in a different way both internationally and domestic as a result of that it was a mark-to-market loss of about 60 crores in this result and which the same has been provided on 31st March other than that I think all numbers are normal in my view and there is no deviation of operation in this period and by and large all operating parameter are controlled. All our production were running smoothly both on the yarn side as well as fabric side.

Having said that I think it has been concerned that what is happening as of now on the cotton spinning side. The cotton prices continue to increase in this period and we saw one of the highest ever prices in the history of cotton whereas existing prices are close to about Rs. 100,000 per candy which was last year about Rs. 46,000, Rs. 47,000 a candy. The international prices also from 70 cents, 75 cents last year today are in the range of about 145 cents course the prices have increased on a double in the international market also, but domestic increase are little higher compared to international increase because …………… which was estimated earlier in range of 350 lakh to 360 lakh bales it is now revised estimates are coming between 315 lakh to 324 lakh bales as of now.

So, that is one of the reasons where the drop was little low because of the weather conditions and also in this period since there was an import duty so the liability or the cost of importing was much higher. So, we could not take a decision at that stage because of the cost factor to import cotton.

Comment on relaxation on duty up to 30th of September, but somehow by the time relaxation was given and by that time there was hardly any crop available outside and as a result of that though even allowed to import duty free as of now, but I think it is going to be limitation how much quantity can be imported in this period. So, sector agencies spoken to the government requested them to relook at and the government is looking at a possibility to allow the duty-free shipment up to 30th September rather than the arrivals in India they are looking at a possibility if the government allows that and the shipment if it is made back again September could be allowed in India on a duty-free basis.

So, that is on the raw cotton side, but at the same time the overall crops seems to be the next year perspective looks good because the area is increasing practically everywhere and including India and there could be a possibly and next crop would be quite good since monsoon and things goes well which as of now are okay.

In this period the next year crop seems to be quite good as of now. The sowing is increasing wherever they it has started happening. The monsoon as of now looks to be on time and there could be a possibility that the next year crop in India as well as in the world market could be good so there could be a surplus situation next year compared to the situation this year. Since the raw cotton prices are increasing at the same time there was increase in the yarn prices also, but there was definitely a resistance from the market or from the retailer to buy at a very high-level prices. As a result of that the spinning industry came under pressure and if you go by the marginal cost of raw cotton and the marginal sale of yarn, there is definitely pressure in terms of these margins and many products virtually there could be possibility that there is no margin available in a commodity products as of now. So, that is situation of cotton and yarn as of now and it looks like since the cotton prices in India is too high so lots of business stopped or else they started reducing their capacities so that they can use the consumption of cotton because the current prices are too high and on that there is hardly any margin available so lots of millers have tried to optimize the operation, some people have reduced the capacity, some have shifted to the synthetic or 100% poly or viscose, etc., so that they can run through operation that the same time they can reduce the cotton consumption also.

So, in terms of volumes we have been running full till now and also on the fabric side things are better. At present the markets were opening, all schools, offices were opening so there was good demand of woven fabric in this period which was a lull in between for about one and half years because of COVID. So, the volume in our fabric division also was increasing or was consistent. The margin that started becoming normalize, but I think again because of the very high prices of raw cotton since there is a pressure from the retailer or from the final brand to accept this kind of price increase, entire chain is trying to readjust and the entire change in margin have been eroded as of now so the same situation is there for the fabric also.

Mukesh can you add something on the fabric side.

Mukesh Bansal: Good evening everyone. Thank you Neeraj ji. Yes you rightly said that during the Q4 on the fabric side the demand was coming back after a lull of about 6 quarters. So, not only the foreign markets but the Indian market was also rebounding as after a long time we were seeing when all the markets were opened and the consumer was coming to work, coming for tourism so there was a good demand. Of course, as far as the prices are concerned, the profitability has started coming back to normal now, but at that time since the cotton and yarn prices were still rising and there is always a time lag which maybe a yarn price increase and fabric price increase, but nevertheless, people were adjusting to remove price, customer were adjusting to prices during the Q4. Nothing much to be added Neeraj.

Neeraj Jain: I will request Mr. Sushil Jhamb to add or we can start with the questions so first we can take up on the raw cotton, Mr. Jhamb who is our Director (Raw Material) is also available so accordingly we can take the questions now.

Moderator: Thank you. Ladies and gentlemen we will now begin the question-and-answer session. We will move to the next question is from the line of Bharat Chhoda from ICICI Securities. Please go ahead.

Bharat Chhoda: Basically, I just wanted to understand because I have been reading reports media that there are chances or there are suggestions that probably yarn exports should be banned, do you think such a thing is possible or what is your take on that and is that like any move like that could impact us?

Neeraj Jain: Ultimately it is the judgment of comment what they want to do, but as of now the exports have already come down because the prices are so high that customer outside is not willing to pay those kind of prices and we understand as of now the production cuts have already happening by this spinning mills on the cotton spinning. So, if any measure is taken where the exports are reduced or cut down or calibrated probably it will have some impact more on the prices in domestic market because already the demand is poor I will not say the demand is poor already prices are so high that is why the demand is poor so people are not willing to commit at these prices, but if we gone to reduce the cotton exports then the same material will be available in the domestic market, but because of the price pressure or because of the negative margins if that happens people will still not be producing. So, I do not think that domestic availability will improve by reducing the export, but at the same time I think there could be more stress which could come to the sector.

Bharat Chhoda: Sir is it correct to understand that at this level the margins that we might be making are negative for exports?

Neeraj Jain: No export and domestic prices are same. The domestic prices as well as the export prices there is not really any difference, but yes going by the current cost of cotton and the current yarn prices there would be lots of products the margins could be negative as well on the basic product.

Bharat Chhoda: Because if you look at the conversion generally it is 1.3 so if we use that kind of thing then probably the cotton prices at 330 levels and then probably to convert to yarn that would be 420, but whereas if you look at the prices that we are getting are around 380, 370 so that kind of mathematics does not suggest it to be like we would be making money on that?

Neeraj Jain: That is true.

Bharat Chhoda: And sir if you could share a book keeping question just what was our yarn exports in FY19 as a percentage of total turnover and what is it currently?

Neeraj Jain: So, out of the total production we do almost 35% to 40% in the yarn exports and about 30% we consume for the captive and another 30% is for the domestic market. So, there is not really any major change 2021 versus 2021-22 of course 2021-22 will be a little lower as a percentage in exports because captive consumption was less and we were exporting more in 2021, but if we look at the pre pandemic situation then probably this year is a normalized year and our export percentage would be almost comparable to pre pandemic period.

Bharat Chhoda: And sir how are we placed on the cotton inventory like how many months inventory do we have and at what price if you can just give a directional idea on that?

Neeraj Jain: Normally we do not share our inventory at any time, but it is up to you to get it from the balance sheet where the numbers would be available. So, we would share that number, but yes I can share only which is not like what we normally have as our inventory so this year we have not covered in our normal course of time what we do.

Bharat Chhoda: So, from on for orders we would be buying at current levels, is it correct?

Neeraj Jain: Partially correct and partially.

Moderator: Thank you. We have the next question from the line of Abhijeet Dey from Equentis Wealth Advisors. Please go ahead.

Abhijeet Dey: One question from my side regarding the hedging losses which you mentioned because cotton prices have continued to move up post 31st of March so I just wanted to know you can give in terms of directions whether we will see more hedging losses going forward I mean have we continue to hedge cotton even in this current quarter and what is your strategy going forward?

Neeraj Jain: Yes we still feel the prices are on a very high side so we are not taking any further hedging as of now, but whatever we have done I think that still continues as of now and we will have to decide at some stage when do we wind it up, but as of now it is continuing.

Abhijeet Dey: So, you are not entering into any new hedging contracts that is what you are saying?

Neeraj Jain: As of now no.

Abhijeet Dey: And secondly sir on the CAPEX the first phase of expansion in the yarn side is expected to come up by September and then also post that you have announced series of CAPEX so all that is basically on schedule or is there any change in the timeline?

Neeraj Jain: The first that which was already under implementation the two projects one at Budhni second Gore-Tex project at Satlapur they are on schedule and they are likely to be completed by September, October this year there are some small delay and because of the construction or the supply of machinery otherwise it is on schedule. The new expansion we are yet to take final we have applied to the government for their approvals as well as the incentive they give it to us in Madhya Pradesh. We never received the approval as yet, but as of now going by the industry situation also I think we might take a view maybe after 6 months or so. So, as of now we are not committing any new expenditure as of now.

Abhijeet Dey: So, what are the capacity addition which will come up in September, October on the yarn side?

Neeraj Jain: The total spinning and vortex taken together it will be about 100,000 spindles equivalent.

Moderator: Thank you. We have the next question from the line of Keshav Garg from CCIPL. Please go ahead.

Keshav Garg: Just wanted to understand your view that like you mentioned that you are expecting cotton prices to move down and at these prices there are no demand and mills are shutting down, so then who is buying this cotton and why our cotton prices sustaining at these levels and if cotton prices do come down as you are predicting then will we face some inventory loss?

Neeraj Jain: So, first of all the cotton prices have increased in the entire world so I think it is more than physical demand, there are lots of demand who have taken a position because of easy money policy. So, they have invested into various commodities including cotton. So, that is one of the reasons the prices have been going up otherwise on fundamental we not feel or find any reason why the cotton should be double compared to the last year when there is not kind of demand increase happening in the raw cotton prices. The Indian prices are in sympathy have increased in India which is the line to the world market. The prices in India are little higher or increases a little higher compared to the world market only because our crop has come down, the overall crop size is much less compared to what was estimated earlier. Third since there is a shortage of cotton especially in India so that is why people are still buying some quantity so they are no millers reduced their operation fully so everyone is trying to work on 70%, 80% capacity utilization that is why the people are still in a position to sell the cotton. I think at the same time going forward in these prices continue there could be a possibility of a further drop in the overall spinning activity. Of course, whenever prices come down we do not know when and how much whosoever has the inventory available to them, whatever is the inventory available to them there will surely be a revaluation mode whenever it comes down. So, it depends whether it happens now, it happens in September, October, November, December it is anyone guess. So, most of the mills are trying to have the minimum inventory as of now so that whenever a revaluation happen, they should be in a position to reduce the losses or it is bound to come whenever the revaluation will happen.

Keshav Garg: So, basically you are not expecting yarn prices to move up significantly and you are expecting basically cotton prices to go down?

Neeraj Jain: Yarn prices has increase it does not look possible for two reasons. One the prices if you look at the word prices so even at the today cotton prices I think the blended cost of cotton in Vietnam being the largest exporter of yarn it is deciding with prices as of now because there is a cotton available and they are in a position to sell yarn at the prices which are prevailing as of now. Indian cotton prices are higher compared to even the imported cotton including the Australian or the ………….. quality which is far better quality in India. As a result of that the Indian spinner there is a more distressed situation as of now compared to someone who is using the cotton which is much better in quality. So, practically the prices are being decided by the normal circumstances where cotton is available on those basis the yarn will get adjusted. Since our cost is higher I think to that extent the Indian seller would be losing or will have the more pain compared to someone else outside. So, we do not think the yarn prices can increase from these levels. So, it looks like already there is a lot of resistance from all the brands to buy these prices. So, it looks like whenever the cotton prices get adjusted probably the margin will restore or if the cotton prices further increase which is anyone guess it can happen sometime then probably the readjustment of yarn prices can also happen.

Keshav Garg: Sir what would be our capacity utilization in yarn?

Neeraj Jain: As of now we are running 100% capacity.

Keshav Garg: Sir and do we have enough quarters to keep on 100% for at least this quarter first quarter?

Neeraj Jain: First quarter yes we will have so plus we are replenishing it also so we are buying from the market also and we are importing it also. So, I think mix of cotton available in India with us, fresh buying both internationally and domestically. First quarter should not be an issue at all.

Keshav Garg: Sir lastly just wanted to get an idea that what would be our cost of production of cotton per candy broadly because I am trying to understand that other ………… prices have gone up so does it make sense for the farmer to shift to cotton so that the supply can increase and prices can go down?

Neeraj Jain: So, farmer is earning much higher than the cost if cost generally for example the MSP last year has been Rs. 6,100 normal price. So, this year as of now the prices are Rs 11,000. So, farmers he is earning much higher than cost as of now. So, there is lot of incentive for the farmer to go in for the cotton crop increase this year.

Moderator: Thank you. We have the next question from the line of Hemant Gupta from Navigdata Analytics. Please go ahead.

Hemant Gupta: My question was regarding export as I understand like we are integrated company in the sense like regarding yarn, fabric and then the garments also what part of the value chain we actually explored the most that is the first question I had, secondly do we intend to focus on exports especially from value added segments of value chain like maybe garments and all?

Neeraj Jain: So, both yarn and fabric. Garment is a very small composition of our overall business may be less than 1% may be at best 1% or so. So, both yarn and fabric we are exporting almost 40% of our production directly exports.

Moderator: Thank you. We have the next question from the line of Ankit Madhwani from Faze Three. Please go ahead.

Ankit Madhwani: Just a quick question on the global yarn prices I mean the previous high of 2008-2009 was close to about $160, $170 so what is the view that those kinds of levels can be seen and obviously converted to Indian multiplied by the Indian rupee and converted to the Indian price would be much higher that is one and the second being that at that high prices what are the chances of polyester increasing its share in the entire textile value chain vis-a-vis cotton?

Neeraj Jain: So, the previous high 2010 for a small period of time the cotton touched almost $2 per candy also. So, as of now it is close to about 145 cents, 150 cents as of now, but if you look at the Indian prices the previous high of Indian cotton price was about Rs. 65,000 a candy which as of now is Rs. 100,000 plus per candy. So, I mean it is anyone guess if the price continues to go up nobody had thought that the prices will go to these levels so if it continue to go up it can happen anyone guess to that extent. So, yes there is lot of substitution happening both with the 100%

probably and as well viscose also. So, both the fibers are catching well in the Indian domestic market because of the pricing range and spinner wants to utilizing capacity so I think both the fibers are increasing their share.

Ankit Madhwani: Can you give some color on the percentage of change that happened in the last 6 months maybe small, but just to get an example?

Neeraj Jain: I can give you an idea it is estimated that whatever cotton consumption was happening earlier probably today there would be a drop of at least 25% and it will have both the fact one there will be some capacity utilization which would have come down and maybe partially 5% to 7%, 10% could be the substitution which can happen by way of viscose and poly, but as of now the major is the drop in the overall production.

Moderator: Thank you. We have the next question is from the line of Apurva Sharma from PGIM. Please go ahead.

Apurva Sharma: I have one question regarding the underlying demand so I understand the prices of cotton have gone up and there is stock price increase of yarn, there is a resistant among customers, but the underlying demand for yarns I mean given this if you remove this extraordinary situation how do you see the demand in terms of for an Indian player given the China plus one and things like that so if you can just give some sense on that?

Neeraj Jain: The momentum of the demand from India still continues to be good. The China plus one factor where most of the European or the Western world started looking at they are still go on the same, they still want the India to deliver them to both yarn, fabric and the garment whatever we can do. So, I think on fundamentals I do not think there is any change happened in last three to four months' time, but since our prices have increased over a point so that is where their resistance is coming to buy at these levels, but in terms of their thought process or fundamentals I do not think there is any big question mark as of now on that.

Apurva Sharma: This is just a sort of temporary setback sort of due to cotton price increase and once things move in line then again demand is not a problem that is what you are saying?

Neeraj Jain: As of now does not look like so maybe this issue is more in terms of the availability of cotton so again prices going much higher I think once these are normalized probably situation could be normalized.

Apurva Sharma: One more related question you explained very well that why cotton yarn prices might not move further because of the resistance from the buyers, but given that capacity is going down and there is a shortage of yarn and demand overall is decent do not you think the yarn prices should move up because if there is some announcement southern mill ………. so spinning capacity going down and there will be a shortage of yarn in the market do not you think the prices I mean your sense that is the yarn prices should go up in line?

Neeraj Jain: It is the question of viability of operation as of now so that is why there is a concern on the demand. The moment yarn prices go further up the margin would start improving so all the capacities which is shut down today will start operating immediately once again. Since the raw material is not available in sufficient quantity so it will further increase the prices for raw cotton and the situation will remain same. So, unless we have a new crop where the adequate raw materials are available I think the major change will not happen in the entire value chain for next few months.

Apurva Sharma: Just one last question what you are seeing is increase of cotton sowing this season globally and India I mean can you just quantify in terms of percentage what I know it is too early, but what the general trend you are saying versus last year what can be the increase in cotton sowing across to give a sense?

Neeraj Jain: In our view the world can increase their quantum by about 8% to 10% whereas India increase could be 15% to 18% because last year drawback come down also because of the bad weather. One the area increased by 8% to 10% further if the yield improves so Indian grow up in the range of about 20% as well on the overall crop side.

Apurva Sharma: And this cotton comes to the market by October, November that is when you start the new cycles?

Neeraj Jain: October it starts coming in so the full volume will be available November onwards, but October the good quantity will start coming in.

Apurva Sharma: Till then the supply situation remains tight so then there is a that would be the scenario in Q2 at least and then Q3 should be better?

Neeraj Jain: Possible.

Moderator: Thank you. We have the next question from the line of Gaurav Jain from ICICI Mutual Fund. Please go ahead.

Gaurav Jain: Just a small follow up on that hedging question so as compared to where the contracts would have closed on 31st March I understand we have carried forward those contracts and we have not entered into new contract, but then as on date where would the prices be? If it were to be calculated today should they be staring at more mark-to-market losses on the contract that we are carrying forward?

Neeraj Jain: So, the first quarter thee will be some amount of further mark-to-market so what I mentioned earlier that we are not inching into any further new contracts, but yes whatever is carried on that is carried on. So, first question will also have some mark-to-market on that.

Gaurav Jain: And can you quantify it as compared to Q4 as on date where would it be just to get a sense of the quantum?

Neeraj Jain: No, it will be lower than that, but too early for me to say anything as of now because the quarter is still. So, we have not still concluded the position so yes as of now surely will be lower than the first quarter.

Gaurav Jain: Second question on the CAPEX bit the earlier thing which I remember we had guided for a 3,000 crore over the next three years and we were to add spillage capacity in three parts. So, first one like spin I understand is coming in October 23 as per schedule, can you help us understand the other two there was one addition of 1.65 and 175,000?

Neeraj Jain: So, the first 100,000 is October 22 and remaining we have not started to work on this as I mentioned earlier we have only applied to the government for their approvals and incentive scheme etcetera, but considering the overall situation of the industry we have hold it on for a few months and maybe we will take a view only after couple of months because in any case the cost of machine or the availability also comes down. So, since the situation or the business was not very good so thought it better to wait for 3 to 6 months' time before we start committing money on the same, but to me personally looks like it eventually comes but there could be maybe 3 to 6 months we have to wait and let the situation normalize for the business.

Gaurav Jain: So, at this point in time will we be able to have a CAPEX guidance for FY23-24, no right?

Neeraj Jain: As of now no. Maybe after the second quarter there will be more share on this.

Gaurav Jain: So, will you be able to help us with the gross and net debt numbers as on March 22?

Rajeev Thapar: So, gross debt both including long-term and short-term this is close to Rs. 2,000 crore as of March 22.

Gaurav Jain: And sir net debt?

Rajeev Thapar: Net debt we are having investment of about 1,500 crores on our book so net this is about 500 crores.

Moderator: Thank you. We have the next question from the line of Sonal Gupta from L&T Mutual Fund. Please go ahead.

Sonal Gupta: Just wanted to understand like have you quantified the Q4 hedging losses?

Neeraj Jain: Q4 already is announced in the balance sheet.

Sonal Gupta: I mean in terms of P&L impact is there anything that is there?

Neeraj Jain: So, 60 crore is already quantified and recorded in the books of accounts.

Sonal Gupta: I mean what is your sense in terms of the demand side because I mean some of the US large retailers I mean they are seeing a slowdown in discretionary consumption and inventory levels are high in the chain it seems so I mean like what is the visibility that you have that while you indicated that you can run at 100% capacity in Q1, how do you think about like your utilization level going to year I mean is there a risk that we see demand also slowing down in second quarter onwards?

Neeraj Jain: So, there are two factors where this demand is coming in the question mark. One is the high prices of cotton which is converting into high prices of yarn, high prices of garment where the demand is coming down. Also, as you mentioned probably it is a one fact that because of the Russian-Ukraine war all the prices have gone up especially the fuel prices, etc. So, I think there is some concern to the people on overall consumption because of that also and third is the supply chain is started improving now. So, earlier people were ordering more because the supply chain was taking lots of time and as things will be improving probably people will like to order less so that whatever extra inventory they had or extra buying they have done that can readjusted in next 6 months or so. So, considering this fuel prices, etc., there could be possibility that there is some demand may count down because of that and two elasticity of demand prices are too high. So, there could be possibility for some drop in the consumption.

Sonal Gupta: I mean just trying to understand do we have visibility into Q2 orders or Q2 production or will that only happen later?

Neeraj Jain: Normally the yarn is sold for about 50 days, 60 days only at any stage. So, as of now we have the visibility to that extent are normal number of days, but going forward I think only the time can tell.

Sonal Gupta: And last question could you sort of indicate I mean directionally you would have seen a compression in your margins on the yarn side I mean other than the hedging loss that you have incurred?

Neeraj Jain: Surely the margins are much less compared to what it was last year.

Sonal Gupta: Not margin what I would say is like I mean like on an absolute basis would your margins from Q3 to Q4 per kg that would have dropped?

Neeraj Jain: Normally let us say one is a way of calculating margins and second is whatever is the …….. cost generally the spinner is getting about $1 to 20 cents, 30 cents as the markup over the cotton which as of now will in the range of maybe 80 cents, 90 cents. I am not talking of margins I am talking of convergence available over and above the raw material cost.

Moderator: Thank you. We have the next question from the line of Himani Upadhyay from O3 Capital. Please go ahead.

Himani Upadhyay: I had a question see what we are hearing is even large brands want to have more cotton and acrylic mix and various other mixtures in the textile because of the increased cotton prices what impact does it have on our business and are we also seeing increased penetration or let us say what was 100% cotton moving to 90% cotton and 10% something else and does it really make a dent or changes our spread in yarn manufacturing so this was the first question?

Neeraj Jain: Yes so it is true that lots of brands are looking to reduce their cost they want to move from 100% cotton to the blends especially polyester and viscose. So, we are really finding those kind of trends in the market, but it does not make much watch for us whether we have used in 100% cotton or we are producing all these blends. So, on the spinning side it does not make really much of a difference to us. So, we are finding those changes and to that extent we are converting our internal capacities also on those products and we keep on evaluating it with 100% cotton yarn and whenever we find or we feel margins is better in a different product, we can easily shift our capacity on that product.

Himani Upadhyay: And are the margins significantly different between let us say 100% cotton yarn or 60-40 cotton acrylic or something like that or polyester or whatever or the margins generally similar?

Neeraj Jain: The margins are generally similar, but as of now since cotton prices are too high so I will say the margin or the loss on the blended products would be lower compared to 100% cotton for the basic products.

Himani Upadhyay: Can you repeat I could not understand the point?

Neeraj Jain: Generally, the margins are comparable, but as of now since the raw cotton prices are too high and basic products or the marginal cost of raw material, marginal cost of yarn selling there is a loss which in case of blended yarn is lower cost as of now because over there you are using a part of synthetic fiber which is much less cost compared to the cotton.

Himani Upadhyay: So, numerically I am not talking in terms of percentage, but numerically the loss would be lower and even the let us say profit maybe higher in mixture?

Neeraj Jain: Whenever the industry is normal at that stage polyester cotton, viscose cotton or a 100% cotton will give you a comparable margin. So, this situation is there as of now, but as soon as the raw material is formulized the margins will become normalize because otherwise it is a spinner's choice wherever he finds a better product or better margin he will keep on shifting on capacities on that. So, this is a very unique or a different position which is why this differentiation would be coming in otherwise whenever the raw materials becomes normal I think the margins generally would be comparable.

Himani Upadhyay: And how difficult it would turn from pure cotton let us say mixtures does it take a lot of time or does not have a very long procedure?

Neeraj Jain: Some changes are required in the machinery part as well as the layout, but that is not very difficult to do.

Himani Upadhyay: And secondly let us say if the price of cotton normalizes in this financial year, but are we seeing the spinning capacity will also increase dramatically over next one year or 15 months or 18 months what is your view not just in India, but let us say Bangladesh and Vietnam and all those places, are we seeing significant capacity coming for the spinning?

Neeraj Jain: I think considering the situation as of now everyone wants to wait and ………… for these situation for some time. I do not think next 12 months to 15 months there is any huge capacity addition likely to happen into the system, but yes, if the margins continues to be good or if the business continuous to be good and brands keep on moving at China Plus One, there could be capacity which could be added into Vietnam, India, Bangladesh maybe Indonesia, etc., because China in any case will be coming down. So, I think next 12 to 15 months I do not think there is likely to be any major addition which can happen considering the today's situation, but yes, whosoever project was started earlier they would like to complete that, but I think everyone is trying to hold on to the new capacity expansion as of now.

Himani Upadhyay: You stated one thing that people who work with imported cotton their profitability would not get that much impacted versus people who use domestic cotton 100% means, did I get it right or what was the meaning of that something similar to that?

Neeraj Jain: My meaning was there are two biggest countries which are exporting yarn India and Vietnam. Vietnam does not have their local cotton so they are importing cotton and whatever is there blended cost of cotton based upon that they will determine the price of yarn whereas the Indian cotton is today even expensive than the imported cotton because even if you want to import the cotton it is going to be two months, three months and by that time we will have to use the Indian cotton. The window available for the duty-free import of cotton today 30th September landed in India and the crops available are only Brazil as well as Australia in this period where the shipment time is not less than 1.5 months or so. So, there is hardly any shipment available for the month of June, July. So, I think the likelihood of India to import big quantities n this period with a risk that instead of 30th September cotton which is on 1st of October you pay and you have to pay 11% duty people will not take that kind of a risk. So, that is why people are not committing big imports into India and that is why the prices in India are not coming down.

Himani Upadhyay: Generally, imports some rate of Egyptian and some of those, so how are we placed in the market for imported goods?

Neeraj Jain: Those are specialized cotton Supima, Egyptian there is no comparison with Indian cotton so those are specialized cotton customer will pay the price if they want to use the yarn or a fabric or a garment made out of those cotton so there is no issue to that extent. Issue is the normal cotton which is comparable or replaceable with the Indian cotton with the normal imported cotton that is where this issue is coming in.

Himani Upadhyay: How much of our revenue would be from that imported cotton because the realization would be also higher because we see raw material of it is…..

Neeraj Jain: Normally we consume almost 92%, 93% cotton is Indian cotton.

Himani Upadhyay: 7% to 8% is imported?

Neeraj Jain: 7% to 8% is imported.

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

Nikhil Agrawal: Sir I just wanted to understand like for your production in Quarter 4 what percentage of the raw material of cotton that was used in Quarter 4 was procured in the previous quarter because there has been a significant rise in prices in Quarter 4, so I just wanted to understand what percentage of cotton was procured in the previous quarter which you have used for production in Quarter 4 if you could highlight on this?

Neeraj Jain: It is ongoing purchase because the new season starts only in the month of November. The online purchase we will keep buying on a daily basis and consuming it. So, it is not we had a huge stock which were available to us till 31st December.

Nikhil Agrawal: Early you have maintained that your cotton procurement season is always been October to March because of the prices and the quality of cotton that you get, but just previously you mentioned that you are still procuring cotton like any reason like behind that because cotton prices are already on an upward trend, so does that have any impact on your margins as such?

Neeraj Jain: Of course it has negative impact on the margins because the prices were too high and we never wanted to have a huge amount of stock because of the devaluation happen it will happen in a big way. So, the crop was not available even if we wanted to buy we could not buy because the material was not available in this system at all. So, we are still buying to that extent.

Nikhil Agrawal: So, will you be continuing to buy like for the remainder of the season as well?

Neeraj Jain: Yes.

Nikhil Agrawal: Regarding this like yesterday there was this notification from South India Finance Association it was mentioning that they will stop procuring cotton and they will be closing out all the mills so any impact of this on your business I believe it should be positive for you because the availability of yarn will go down in the country, so like any other impact of business of this on your business?

Neeraj Jain: Not yet other than what you have mentioned nothing more adverse.

Nikhil Agrawal: Sir just one question any value growth guidance revenue growth guidance?

Neeraj Jain: It is too early to give any guidance as of now because I think it is an extraordinary situation everyone understand nobody could envisage these kind of situation. So, maybe kind of prices I think there is no point in giving any guidance on the numbers as of now when the things are so different. So, I think it is only may be after the first quarter number we should be more clear on how thing here looks like.

Nikhil Agrawal: Sir you maintain your margins at 18% to 22% like your margin guidance at 18% to 22% even now?

Neeraj Jain: Yes that is on a normal year basis, but I do not think it is a normal year.

Moderator: Thank you. We have the next question from the line of Vishal Bagadia from Roha Asset Managers. Please go ahead.

Vishal Bagadia: Sir if you could share the average realization for yarn and fabric for Q4 as well as FY22?

Neeraj Jain: I can only say for the industries purpose we do not share our own realization in the industry. I think the average realization in this period would be $4 50 cents or so.

Vishal Bagadia: If you could share what is the average cotton price for the year?

Neeraj Jain: For the year.

Vishal Bagadia: Yes for the year FY22 the average cotton price for us?

Neeraj Jain: For us we do not share our own cotton prices I think once you get the balance sheet you can calculate it yourself.

Moderator: The next question is from the line of Pulkit Singhal from Dalmus Capital Management. Please go ahead.

Pulkit Singhal: Couple of questions first I just wanted to be clear on your previous statement are we saying that the current cotton and yarn prices if we were to do business EBITDA margins would be negative?

Neeraj Jain: Negative or miniscule I will say.

Pulkit Singhal: So, in that case how long can the procurers continue to hold out I mean ultimately there can be some inventory correction in the global system for two or three months, but they will have to start buying as well I mean the government have to be still produced and sold, so is this a very temporary thing they can hold out for or that can be much longer in your experience?

Neeraj Jain: No, they cannot really hold on to beyond a point they will have to procure in any case. So, everyone is looking at everyone is feeling these are higher prices. So, everyone is looking by delaying or postponing their decision to buy so that if there is any correction happens on the raw material prices. But beyond a point they will not have the opportunity everyone will have to buy. May be they do not buy 100% they buy 75%, 80% that is the customer's choice, but it is not possible that a customer will not be buying at all. So, since the prices are too high everyone is looking and trying the postpone the decision whatever they can improve depending upon their inventory situation as of now.

Pulkit Singhal: And what happens in a scenario in case prices remain high and then I mean they kind of crash down suppose cotton prices crash at some point because you said that there were traders in the system who might have kind of taken advantage of the situation and that is pushing our prices. If cotton prices crash and there is inventory loss in the system, do we see lot more spinners go out of the market or how does it really play out I mean looking at the past cycles?

Neeraj Jain: There is one good thing happened right or wrong in this period since the cotton was not available really spinners may not have huge inventories available to them. So, most of the spinners will have a inventory anything between two to three months' time against the normal inventory of about 6 month, 8 month kind of situation. So, even if the correction happens at the valuation happened I think to that extent the losses will be lesser compared to with the normal inventory if spinners are carrying since the raw material was not available nobody could buy so everyone has a much lesser inventory in the system.

Pulkit Singhal: And if prices were to remain high and ultimately obviously the buyer also has to pay up higher for yarn I mean the margins of 18% to 22% of whatever you have done in the past does it come back to that level or you settle at somewhere lower levels?

Neeraj Jain: Ultimately if the prices are passed on and the buyer is willing to buy then I am sure the margin should become normal, but it is a situation where suddenly raw material prices have increased more than the yarn price increase so that is why there is a distortion so either the customer will start accepting those prices or the raw material prices will come down either of the two. But whether it happens in two months or three months or four months or six months it is a time which will time. So, as of now the separation is surely there, but I am sure either way whether the raw material comes down or the yarn starts getting acceptance at a higher level than the margin should become normalize.

Pulkit Singhal: So, lastly I think there are lot more garmenting capacities coming up in India and Bangladesh which I though benefit spinners in India in some form, does that continue to take place as a structural advantage for Indian spinners or does that aspect comes down?

Neeraj Jain: That should continue because as we are still feeling the western words thought process on China plus one continuous so to that extent I do not think there is any fundamental change in their thought process. So, the medium term it should again be available to us whenever the situation is normal. So, today's situation is different because of our own cotton prices which are much higher both because of the lesser crop and no import could be done because of the import duties. So, these are the two biggest reasons why we are more costlier than the world today otherwise everyone in the system entire world is almost suffering from the same phenomena. So, for any product in the entire world is suffering that cannot really carry on for a very long period of time.

Moderator: Thank you. We have the next question is from the line of Sandeep Baid an Investor. Please go ahead.

Sandeep Baid: Just wanted to know when did the official season get over for cotton this year, was it sometime in the mid-April or end April?

Neeraj Jain: No that is our official date so our cotton season typically all balance sheet we talk on media instead of 1st October to 30th September most of the time by 31st March or by 30th April we get almost 90% cotton is available in the system for the season and I think even today also situation is almost like this 84%, 85% profits already come.

Sandeep Baid: You mentioned that you continue to purchase cotton even today, but by when did you finish most of your purchases was it by March end or was this by April end?

Neeraj Jain: Normally we finish by 30th April.

Sandeep Baid: And this year would have been similar?

Neeraj Jain: No this year I have already mentioned we are still buying we have inventory, we are importing, we are buying also. So, it is a mixture of all these three things happens.

Sandeep Baid: As per your balance sheet your inventory is about 2,9000 crore as of March 31st and last year it was about 2,800 crore of course this year the prices are much higher and therefore in terms of volume the inventory will be lower as compared to last year, so last year your inventory lasted till end of October mid-November so about say 7.5 months and given that this year inventory is about 100 crores higher as of March 31st but the prices are also higher, could it fair to assume that the current inventory will last say August or so?

Neeraj Jain: It is up to you to decide and calculate your number calculation better than so I do not want to give any number and guidance, but yes the inventory which we are mentioning 2,800, 2,900 crore that includes the finished goods also and since the raw cotton prices are higher everything in the system gets valued based upon the consumption rates. So, even the finished goods inventory though in terms of number of days could be same, but in terms of value will be much higher since your raw material consumption will be higher. So, yes there would be definitely from the last year we are much less in terms of cotton.

Sandeep Baid: And today how much would be the difference between international prices and domestic prices for cotton?

Neeraj Jain: So, the international prices are today ranging between near future is in the range of about 140 to 145 cents US cents per pound. We had another 20 basis points for the imports to happen so that is about 165 US cents available in India whereas Indian cost will be close to about 170 cents, 167 cents to 170 cents that is one, but at the same time normally Indian cotton is at a discount from the US cotton because of the quality and the contamination. So, we are generally 8 to 10 cents lower than the US cotton so this time we will be either equal or maybe 2, 3, 4 cents higher than the US cotton and third the quality of India cotton is very poor this year so the realization of yields will also be coming down as the overall quality is not good at all this year that is where the cost is higher.

Sandeep Baid: On fabric business would you say the margins are now at a normal level?

Neeraj Jain: Fabric business our margins have come down has come to the normal level, but again the yarn prices capital increasing and there is a resistance from the end buyer to accept those prices. So, there is a pressure on the fabric side also. So, entire chain so on one hand the farmer got lots of money available to them so they have made money and after that the entire chain is trying to readjust so the spinning, knitting, weaving or garmenting everyone margins to that extent have come down because there is a final pressure from the retail to accept those margins. So, fabric also as of now our margins are under pressure only because the yarn keeps on increasing and it is very difficult for us to pass on those prices to the final consumer.

Sandeep Baid: Would it be fair to assume that even the yarn prices comes down the fabric prices normally does not come down correspondingly and that margins are more sticky in the fabric business?

Neeraj Jain: Historically this has been the trend and let us see how this year works, but yes historically this is the trend.

Sandeep Baid: I was asking given normal fabric margin would you say that 18% to 22% of your overall margins are sustainable at what yarn cotton spreads?

Neeraj Jain: At 10 cents to 15 cents I think 18% to 22% will become workable.

Moderator: Thank you. Ladies and gentlemen due to time constraints we will take one last question from the line of Prerna Jhunjhunwala from Elara Capital. Please go ahead.

Prerna Jhunjhunwala: Just wanted to understand how much is the fabric prices increased in the last 5 to 6 months versus the yarn price increase?

Mukesh Bansal: I would say in the last 5 to 6 months whatever yarn prices have increased about 70%, 80% of that has been absorbed in the fabric prices also.

Prerna Jhunjhunwala: And are we having any price increases experience in any price increases in the last one or two months given that yarn prices are not increasing materially?

Neeraj Jain: Yes, once the yarn prices stabilize that when I am giving a range of 70% to 80% that range keeps on increasing so from 80% it will move down up to 90% and so on. So, eventually if the yarn price is stabilized maybe another month or so 100% of yarn pricing set up job in the fabric pricing.

Prerna Jhunjhunwala: Sir, any impact on a capacity utilization due to this resistance of buying from domestic and international customers and where do we expect our utilization for the first half?

Management: For the first half it may be difficult to comment at the moment, but for last three, four weeks we have some capacity utilization issues that we are running at about 85% to 90%, but we expect that it start improving in another two weeks or so because the demand cannot be permanently subdued it will bound to come back. If in second quarter it rebounds and we are again back to 95% to 100% then for first half you can assume achieve utilization of about 90% - 95% or so.

Prerna Jhunjhunwala: And sir in the fabric business also are we looking forward to see mix of cotton and other fibers fabric or we will restrict ourselves to only cotton?

Management: No, that is true we are there to cater to the customer demand. There is inertia because the customer does not take a knee-jerk reaction on a shorter period of time because changing the product mix and taking the product to the consumer, convincing the consume of a new product range itself that is the big risk for the retailer. So, for a shorter period of time they may try to stick to the original product range even though at lower prices, but yes, some change has started happening from 100% cotton to cotton poly which is predominantly cotton and then some portion of polyester and also from 100% cotton to cotton viscose.

Prerna Jhunjhunwala: How much percentage of our capacity would shift to that side as per your rough estimates not holding you on to that?

Management: At present also 20%, 25% of capacity is on the blends.

Moderator: Thank you. Ladies and gentlemen that was the last question I would now like to hand the floor back to Mr. Jain for closing comments. Please go ahead.

Neeraj Jain: Thank you very much and as we are discussing it is a very challenging situation for the industry, but I am sure this challenge has some medium term impact or advantages also though there could be short term concern that the mindless expansion which people start looking at may be reduce to some extent and people were start looking at more economic reason rather than it is only a north or one-way traffic for the profitability. Having said that of course there are challenges issues, but I am sure internally we are looking at it very seriously on a daily basis, hourly basis what could be the changes which are required in our system and how can we continue to operate better even in these prices also. So, whatever is controllable, I am sure we are day in day out working on that and I am sure the results would also be good to that extent whatever changes we have to make. I think the crisis times gives us an opportunity also to make changes which in general times sometimes it is difficult to carry on. I am sure by the time we will be maybe next couple of months this challenge continues to be there, but I think the year as a whole still will be better than the situation today and I thank every investor who have participated in this call and you have always been supporting the company and I am sure we will pass through this time also comfortably. Since in terms of liquidity, cash availability I think the company is sitting very comfortably and we are still looking at a modernization and other things so on the long-term thought process there is no compromise to that extent in spite of this situation which I am sure will give us an advantage whenever this things become normal. So, thank you very much have a good day bye.

Moderator: Thank you gentlemen of the management. Ladies and gentlemen on behalf of Batlivala & Karani Securities that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.