Vardhmān
Delivering Excellence. Since 1965.

VARDHMAN TEXTILES LIMITED

CHANDIGARH ROAD
LUDHIANA-141010, PUNJAB
T: +91-161-2228943-48
F: +91-161-2601 048
E: secretarial.lud@vardhman.com

Ref. VTL:SCY:MAY:2024-25 **Dated: 13-May-2024**

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 – Q4 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 10th May, 2024 to discuss Q4 FY'24 results.

Kindly take the same on record.

Thanking you,

Yours faithfully,
FOR VARDHMAN TEXTILES LIMITED

Sanjay Gupta

Digitally signed by Sanjay Gupta
DN: c=IN, o=Personal, postalCode=141010, l=Ludhiana, st=Punjab, street=House no . 1883 Sector 32-a Chandigarh Road, ludhiana, Punjab India- 141010-, title=3668, 2.5.4.20=124bad9891b98bc1c230ebad1a3f92123370292ebb19fd0cd2aded21fd129d95, serialNumber=f90871601590b53e4e52bd5cbc80df08eb5fd927c6f81aa06bcbf1aed41af6ab, email=sanjaygupta@vardhman.com, cn=Sanjay Gupta
Date: 2024.05.13 15:17:39 +05'30'

(SANJAY GUPTA)
COMPANY SECRETARY

"Vardhman Textiles Limited Q4 FY24 Post Result Earnings Conference Call"

May 10, 2024

MANAGEMENT: **MR. NEERAJ JAIN – JOINT MANAGING DIRECTOR, VARDHMAN TEXTILES LIMITED**
MS. SAGRIKA JAIN – EXECUTIVE DIRECTOR, VARDHMAN TEXTILES LIMITED
MR. SUSHIL JHAMB – DIRECTOR (RAW MATERIALS), VARDHMAN TEXTILES LIMITED
MR. RAJEEV THAPAR – CHIEF FINANCIAL OFFICER, VARDHMAN TEXTILES LIMITED
MR. MUKESH BANSAL – HEAD (FABRIC MARKETING), VARDHMAN TEXTILES LIMITED
MR. VARUN MALHOTRA -- HEAD (FINANCE), VARDHMAN TEXTILES LIMITED

MODERATOR: **MR. ROSHAN NAIR – BATLIVALA & KARANI SECURITIES INDIA PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the Vardhman Textile Limited Q4 FY '24 Earnings Conference Call, hosted by Batlivala & Karani Securities India Private Limited.

As a reminder, all participants' lines will be in listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

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

Roshan Nair: Thank you, Sejal. Good evening, everyone, and welcome to the Q4 FY '24 Earnings Conference Call of Vardhman Textiles Limited. On behalf of B&K Securities, I welcome all participants and the management of Vardhman Textiles Limited to the call.

We have with us today, Mr. Neeraj Jain - Joint Managing Director; Mr. Sushil Jhamb - Director, Raw Materials; Mr. Rajeev Thapar - CFO; Mr. Mukesh Bansal - Head, Fabric Marketing; and Mr. Varun Malhotra - Head of Finance.

Without further ado, I would like to hand over the floor to Mr. Neeraj Jain for his opening remarks, post which we can have a Q&A session. Thank you, and over to you, sir.

Neeraj Jain: Thank you, Roshan. Good afternoon, everyone. So, the Results are before all of you. There is some improvement in the Results, but I think those uncertainties are still continuing. This was a period where we saw a huge variation or huge sink in the cotton prices, both in India as well as outside, so majority of the cotton comes in the period October, November, December to February, March in India, and this was a period where the peak arrivals were there.

So, if you first look at the international prices of cotton, it was stable at about US$0.83, US$0.84 per pound. And in the period, it increased to almost $0.97, $0.98, then came down to $0.74, $0.75 and as of March, $0.77, $0.78 or so and so on. So, which means there is a huge thing happening on the international cotton prices because of various factors that it's not related only to the cotton. It's related with the, I think, overall interest rate cycle, overall commodity cycle and the overall issues which are beyond cotton. But of course, since cotton is a part of that, we have to understand, and we have to look at what could be our best strategy for coverage of change.

In this period, the Indian prices started at a lower tone. The effective MSP for Indian cotton as of now is in the range of about Rs. 56,000, Rs. 57,000 a candy, and then the cotton started coming in because of the lower demand and because of the pressure on the overall system, the cotton prices were lower compared to even the minimum support price.

As a result of that, the CCI started operating in India. India accumulated almost 32 lakh, 33 lakh bales this year in the initial period, especially in Telangana and the down South. Of course, they did some operations in Maharashtra and Gujarat also, but majority of their operations were in south where they have accumulated almost 32 lakh, 33 lakh bales of cotton.

The prices was lower in the rest of the market. So, I think they start recovering and trade also started recovering cotton at those prices. Looking at the cotton prices because most part of the season, it was ranging in the range of about Rs. 56,000 or so, which is almost US$0.85, US$0.86 delivered in India compared to, at that stage, the New York Future was $0.83, $0.84. So, that meant the Indian cotton was available only at about $0.01 or $0.02 on, which seems to be quite a reasonable level when it comes to the overall risk strategy to that extent.

So, Vardhman also started cutting the cotton and recovered most of our cotton in this period. Last few years, we have seen very different scenarios where we didn't cover the cotton because of quality, because of the pricing. And this year, I think our normal buying started happening. We recovered most part of the cotton as usually we do in the normal time, both because of the commercial as well as the quality customers. So, that's one part that we covered it.

And immediately after that, the New York Future started going up. As a result of that, India cotton also from Rs. 56,000, Rs. 57,000 went up to almost Rs. 64,000, Rs. 65,000 also. But again, once the New York Future started coming down, the Indian prices also realigned. And as of now, if you look at the New York Future at $0.77, $0.78 and the availability of cotton internationally with 1,000 or 900 on, it is close to about $0.88.

Indian cotton, also, as of now, the market is available at $0.87, $0.88 only, which means there is some disadvantage for the Indian cotton without looking at a duty component on that. But if you add the duty component, then maybe the Indian cotton is cheaper by about $0.02, $0.03 only.

So, that's on 1 and 2, the change of price of cotton was increasing both international and in India. There was some improvement in the yarn prices also in this period. Prices, which are usually in the range of about $2.90 or $3, went up to $3.20, $3.25 also. But of course, as the cotton started coming down, the prices also were aligned and started coming down and as of now, I think international prices would be in the range of about $3.10 or so on a cotton base of $0.77, $0.78, cotton base of $0.88.

So, of course, this helped us and there is some improvement of our overall margins on the spinning side. In terms of utilization of the spinning in India, our expectation or our feeling estimation is that it's in the range of about 70%, 72%, and there is still about 18% to 20% capacity unutilized, especially the smaller segments where I think maybe because of the margins or maybe because of lesser demand in domestic market, there seems to be some issues and challenges.

When it comes to the export of yarn, the India is doing almost 105 million, 110 million kg per month which is the normal export, which we were doing pre-COVID also. So, I think in terms of the, of course, the prices are challenged. But in terms of export of yarn, there doesn't seem to be any question mark or a concern. So, the normal quantities are going, which means still there is a pressure on the yarn prices which the domestic segment, the demand is a little lower, which is not allowing the prices to go up.

On the fabric side, things continue to be better, and we are still utilizing all our 100% utilization. As we mentioned in last two, three calls, once the people started going to the offices or the workplace started happening, I think that there is definitely an improvement in the overall weaving consumption and our weaving division is doing well, and we are running all the 100% capacity utilization on that consume.

The third is we have announced now some CAPEX. I would like to give the details of the same. There were two announcements which were done before in 2021 and '22, where we have announced increase in the spinning capacity price, but I think we have withdrawn that. And now we have looked at a fresh investment, which is both in terms of the expansion and modernization on the spinning side as well as on the fabric side as well.

On the spinning side, we intend to put up a component. I think that's one expansion, where, in addition to that, we are also looking at major modernization in the spinning sector. So, normally, we do almost about 150 crores of modernization every year in the spinning.

But this year, there is a special project taken where we are looking at productivity improvement. We are also looking at tendering of our shop floor where more and more number of products could be produced at a right quality. And also, I think it's our policy to keep investing and modernizing our machine parts so that the customer doesn't have a disadvantage at any stage.

So, this year we have taken a special project where we are looking at modernizing spinning in a bigger way. I think the overall CAPEX on the spinning side, including the expansion, could be in the range of 1,000 crores or so, which is estimated. And we expect most of the spinning modernization of the project should be completed, I think, by March, April '25, April, May '25, so one year from today.

On fabric side, there are two major products which are undertaken. One is the modernization as usual, which we always keep looking at. This modernization includes debottlenecking also so that we could increase or enhance some of the capacity.

And also one manmade fiber-based project has been taken for the manmade fabrics, which is India, I think, we are very, very weak on the manmade-based products, since most of the consumption of the world is going on the manmade now.

So, I think to support industry, we have decided to go for the manmade fabric. And I think this project will also be completed in the next 1.5 years or so. So, I think the CAPEX on this plant would be in the range of about 300 odd crores, the first phase. And then looking at the success or looking at the optimization of this, we would be looking at the next phase of expansion only after that.

In addition to that, this year, we are taking a special project on our green power also. So, today, our green power is only about 2.5%, 3% of our consumption. And as this is both commercially viable as well as most of the world is talking of now the sustainability, we are taking some special measures where we intend to spend our money both on the solar as well as wind parks so that our green could be increased. And it looks like maybe our first target is to complete and to reach our green power from 2%, 2.5% to about 25%, 30%.

So, that's the intention this year. So, there are some small steps already taken. And we are negotiating, and we are discussing with the various service providers where we could enhance this, and we are hopeful that within the next 1, 1.5 years, we should be in a position to complete this as well.

So, with this, our total CAPEX, which has been estimated for about one year, I would say practically one year and maybe 2, 3 or 4 months, in addition to that, we are estimating it to be in the range of about Rs. 2,000 crores, I think, which will definitely give a good stimulus to the organization in terms of strengthening our shop floor, in terms of our capability, in terms of debottlenecking, and also in terms of improving the overall quality and reduction in the utility, etc.

I think this is my initial remarks. We can move on to the question-answer, so that whatever are your specific queries, we can address, or we can discuss it along with that. Thank you.

Moderator: Thank you very much**.** We will now begin the question-and-answer session. The first question is from the line of Aditi Loharuka from CD Equisearch. Please go ahead.

Aditi Loharuka: Sir, my question to you is that your inventory is almost doubled from FY '23. So, could you please tell us the reason behind this?

Neeraj Jain: So, as I mentioned earlier also, last 2 years, our cotton inventory has been much less. Because of the prices, we were not very confident to store it or not. But this year is our normal inventory balance. And since the season ends practically towards the end of March, we could cover most of our cotton. So, that's why the inventory is on a higher side.

Aditi Loharuka: So, you see the demand also to get back to normal?

Neeraj Jain: Yes, for us, I think on the spinning side also, we are running all our 100% capacity utilization. So, one is the pricing factor, which has to be aligned to the market, but in terms of demand, I don't think there is any issue for a company like Vardhman. We are doing reasonably well to that extent.

Moderator: Thank you. The next question is from the line of Himanshu Upadhyay from Buglerock PMS. Please go ahead.

Himanshu Upadhyay: So, my first question was, see, in the last quarter, we announced a small CAPEX, but even then we have had much more skepticism, okay, on how the industry will play out and especially with the cotton prices and the narrowing gap between the Indian cotton and U.S. cotton and what will be the government policies and all those things, and hence we wanted to be more cautious. But what has changed so dramatically that we are taking a 2,000-crore CAPEX within one year? Can you just give your thoughts on how the change of thought has happened or evaluation of thought has happened? And what was the reason for that?

Neeraj Jain: I think whenever we have shown that skepticism, we were also very clear. There are lots of plans we have on the ground where we want to implement as confidence improves. There are a couple of things where we feel confidence is improving.

One would be we have been talking last 2, 3 years, that the trend of China plus 1 is there and lots of brands are coming to India where they want to have the second source in addition to China. That trend continues for the organized sector. And I think we are also finding that trend to be very, very positive, where more and more brands want to come, and they want to source from India.

Two, I think it was a factor we wanted to look at and understand what the timings could be where we should announce a bigger modernization and expansion. And we were also looking at, so, one thing which has happened in this period, the government has announced a RoDTEP under the advanced license.

So, the disadvantage of cotton import with the duty is relatively much less today compared to what it is used to be. If there was a duty on India and they do not get the RoDTEP also, it was impossible to work on with imported cotton without any RoDTEP on that.

But I think definitely, the government has responded to the industry needs where under even advanced license, we are allowed the RoDTEP, which is definitely one of a big step because even if now the import is where it should not be, but you want to import, I think the relative disadvantage has come down. So, that is one big step there, which is boosting industry's confidence.

Two, as I mentioned, the customer requirement helps.

I think profitability is one part. Margin is one part. Price is one part. But having said that, the kind of orders which are coming in and every customer wants a delivery within 30 days, 45 days, we require to relook at our entire thought process as well as the organization, how do we cater to these demands.

All these customers which intend to come to India, there are two requirements. One, the variety of products, especially the new products, etc.; two, the variety of fibers. Now, to cater to both and both things should happen within 30 to 45 days around delivery expectation, I think catering to that or thinking about that, we took one special efforts to look at how do we reorganize ourselves and how do we look at catering to these customers.

So, there was a comprehensive plan, which will not only deliver on these, but was also related with the productivity improvement in terms of the overall machine productivity as well as manpower productivity.

So, that's where I think this project has been taken. Last two, three years, we didn't do much. At the same time, we have always been mentioning there are issues on the government policies, in our view, as per the cottons are imported, etc.

But there is some relief, or some thought process which has given probably that feeling is that the disadvantages which have been created may be less or eventually, it may go also. So, I think to that extent, we were much more confident in the announced expenditure.

Himanshu Upadhyay: And on the technical textile producing this 15 lakh meters, can you specify what type of products you would like to produce because it's a very…

Neeraj Jain: I will ask, incidentally, our Fabric business where Sagrika has also just joined us. So, I will request her to reply you on this.

Sagrika Jain: So, this is regarding technical textile. So, our first phase is going to involve a capacity of about 15 lakhs meters per month and 80%, 70% to 80% of this will make polyester, and 20% to 30% would be nylon.

So, the applications would be varied. There will be sportswear, activewear. But then there is also industrial applications such as tent, parachute fabric, defense application is also there. So, the customer base would be varied. It would be some of our existing customers, like Colombia, Decathlon, but then there would also be other sports customers. And then, as I mentioned earlier, defense and industrial applications.

Just to give you a sense that here we felt that there was a big opportunity that was available for Vardhman, because as Mr. Neeraj Jain already mentioned, there was a China plus 1 vibe that we feel that a lot of brands, a lot of customers want to look at alternatives other than China.

And then in the Indian market itself, there was a vacuum in the market due to maybe not as many organized established here present. And we also felt, as Mr. Neeraj Jain again mentioned, that if you look at world versus India, so India, we have 70% to 80% cotton and 20% to 30% manmade. In the world, this trend is exactly the opposite. So, we wanted to capture all these trends.

Do you have any follow-up questions?

Himanshu Upadhyay: So, one follow-up. So, do we in the existing capacities are catering to any technical fibers? And how big are those capacities? And have you already got the customers? And how different would be the moods or, let's say, the challenges in this business versus the cotton-based fibers?

Sagrika Jain: So, currently, we do not have technical textiles. So, this would be our first foray into technical textiles. If we compare it to what we have previously done, so if we compare it to cotton, I wouldn't say it would be more difficult. It would just be different. So, we have to build up internal capability.

And also, sourcing will be different because some portion, like it's no longer a natural raw material that we would be sourcing. It would be manmade. So, there would be certain differences, and we would be building up internal capabilities in order to meet the same.

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

Prerna Jhunjhunwala: Thank you for the detailed brief on technical textiles. I would also like to understand the level of integration that you are building in this segment, as in is this also fiber, yarn, from what level? And are these capacities, you know, had you already spoken to some of the customers who would be interested in this capacity? And what are the technical, technological collaboration that would be needed, if at all required?

Sagrika Jain: So, currently, we are not looking at the manufacturing filament on our own. We would see sourcing the filament, and then we are planning to have weaving capacity and processing capacity in-house.

And if you are asking about what the synergies would be with existing customers, we have kept a few of our customers in the loop, and they are enthusiastic about it. But like I mentioned earlier, while we would be catering to some of our existing customers, we also want to diversify and grab new markets and new customers.

Prerna Jhunjhunwala: And what will be the approximate cost of setting this technical textile business?

Sagrika Jain: So, in the first phase, we are looking at about 320 crores, 330 crores. And once we are able to establish this, then we will think of setting up Phase-2.

Prerna Jhunjhunwala: And will it be getting PLI benefit as well? Any government incentives that you are looking forward to in this?

Sagrika Jain: No, we would not be getting that. I think the PLI scheme is no longer available.

Neeraj Jain: It's not available to us because that's for a smaller company and this project is going to be a part of Vardhman Textiles only.

Prerna Jhunjhunwala: And the overall demand scenario in fabric, is it much better today as compared to in the past 6 months? How are you looking at the outlook of the fabric business, your existing fabric business in the near to medium term? And are there any capacity expansions lined in the existing business as well?

Sagrika Jain: So, if we compare it to last year, it has been a very difficult year, and the team has done a fantastic job in trying to grab new customers and enter new territories in order to maintain a certain volume. If we think about the demand outlook, then it seems that the worst is over.

However, recovery is still going to take some time. There are some headwinds and there are some tailwinds. If we look at tailwinds, then we can see that a lot of the lead brands, their inventory levels, which were very high after COVID and even last year, that inventory level has come down.

So, at the retail level also, it is supporting, which means that now the supply chain is relatively dry, and they are starting to replenish. So, that will be taken. But if we look at headwinds, the interest rate, the inflation and also the propensity of the consumer to spend on apparel, that continues to be a challenge. So, I think we can say that the worst is definitely over, and we can look for a better future.

Apart from that, we are also looking at new customers and new products. So, we are working towards more innovative fabrics, whether it is more blend so that we can compensate the lack of demand.

You also asked about whether we are planning to enhance capacity in our conventional fabric. So, as of now, yes, we are looking into certain debottlenecking operations because if we look at this financial year, our utilization was about, if we look at the full year, 88%, 90%. So, which does mean that we are looking to debottleneck in certain areas. This debottlenecking will allow us to enhance capacity while also improving serviceability to our customer. So, that's what we plan to achieve.

Prerna Jhunjhunwala: 5% capacity enhancement would be there on this, with debottlenecking?

Unknown Executive: It will be very small, actually. Some of it would be normal CAPEX as well. I think we can let you know in the next Q call.

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

Awanish Chandra: Sir, first thing, last time we have talked about 200 crores small CAPEX. That is separate than what we have announced today.

Management: Yes, that was CAPEX.

Awanish Chandra: So, that was a very small project of 15,000, 16,000 spindle. So, that is still going on or that capacity is already added?

Management: No, that's still going on. All that capacity will be available, I think, by December, January this year.

Neeraj Jain: This 2,000 is over and above 200.

Awanish Chandra: So, that small capacity addition will be completed by December this year?

Neeraj Jain: Correct.

Awanish Chandra: And the new 50,000 spindles that we have talked about in new CAPEX, that it will take another year from here to get commissioned?

Neeraj Jain: Correct.

Awanish Chandra: And sir, you talked about around 1,000 crore CAPEX, which includes 50,000 spindle and modernization project. So, this 50,000-equivalent spindle, how much that CAPEX would be, separately?

Neeraj Jain: So, there are 2 ways. One is like a new open-end project is coming, which is equivalent to about 35,000 spindles. That project cost will be 300 odd crores or so. In addition to that, the remaining 17,000 spindle is a modernization of existing spindles, where we will be putting up the new spindles instead of the old spindles. And as a result of that, we are adding net-net 17,000 spindles. So, it's not only a cost of 17,000. So, we are replacing almost 60,000 spindles and we will be adding close to about 77,000, 78,000 spindles new. So, the net addition will be 17,000.

Awanish Chandra: That's why total is huge, 1,000 crores.

Neeraj Jain: Correct.

Awanish Chandra: And ma'am was talking about the 300 crores CAPEX on this first phase. So, 15 lakh meters per month is your first phase or there is a Phase-1, Phase-2 in this 15-lakh meter fabric technical textile?

Sagrika Jain: So, I was talking about Phase-1. You are absolutely right. Phase-1 would be 15 lakh meters per month, and that entails a CAPEX of about 330 crores, 340 crores, around that.

Awanish Chandra: And then one more thing. What would be the asset turnover in this business, in technical textile?

Sagrika Jain: What would be a?

Awanish Chandra: Asset turnover. How much revenue we can generate after the 1st Phase get completed? So, we are putting 300 crores CAPEX. How much revenue we are expecting when this new project of 15 lakh meter fabric gets commissioned in a year?

Sagrika Jain: So, we can expect a sales revenue of about 200 crores.

Awanish Chandra: So, in this business, asset turnover is less than 1?

Neeraj Jain: Yes. It will be less than 1 because we are adding lots of rooms where the advantage doesn't come in, but once we go for the second phase, probably the asset turnover, we might touch about 1:1 in total project.

Awanish Chandra: And margin wise, it will be similar to our company margin? Or this will have a better margin?

Sagrika Jain: Similar.

Awanish Chandra: So, again, the margin would be what we always guide, 16%, 18%, this kind of margin will be generated?

Sagrika Jain: Yes.

Awanish Chandra: And sir, one last question on the margin side. We are still far away from our guided or earlier year's margin. So, what is the expectation there? It will take another year to reach that. What is your outlook on that?

Neeraj Jain: My feeling is if we look at the USA and Europe, almost a 20% drop is there in the imports. Every time normalization happens, in the entire work, the margins won't improve. On the spinning side, still I think most part of the world, it is running about 70%, 75% spinning utilization. Of course, it has improved 8%, 10% in the last 6 months.

So, I can only hope the improvement in the margin in a big way once the normal utilization starts happening. It's slowly building up, slowly picking up, but it may take maybe another 6, 9 months.

So, I am hopeful by the time we complete all our expansion and modernization, things should be far better than what it is today.

Awanish Chandra: But all these projects, this year, we won't get anything from this new CAPEX, right, as far as capacity is concerned?

Neeraj Jain: No, no.

Awanish Chandra: Everything will come into the picture in FY '26, yes?

Neeraj Jain: Correct.

Moderator: Thank you. The next question is from the line of Pritesh Chheda from Lucky Investments. Please go ahead.

Pritesh Chheda: Just your audio was weak, so capacity utilization in spinning for us, for Vardhman, in FY '24 and quarter four FY '24 was what, sir?

Neeraj Jain: Almost 100%.

Pritesh Chheda: Almost 100%, okay.

Moderator: Thank you. The next question is from the line of Rahul Jain from Credence Wealth. Please go ahead.

Rahul Jain: Sir, pardon me in case you have covered this in your initial 2, 3 minutes of commentary. So, typically, sir, given the current situation on demand and spreads of yarn, cotton yarn and the exports and the domestic, how are this behaving?

Two, three questions aligned. One is the demand on the cotton yarn side, both export and domestic, and also the spreads on cotton yarn, how are they behaving? And what is your expectation going ahead?

Neeraj Jain: So, the demand, both domestic and exports for Vardhman is normal. And in terms of prices also are comparable between these two markets. There is, I mean, generally, the gap of Rs. 2, Rs. 3 here and there. But, by and large, the prices and the margins are aligned both in exports and domestic and the demand is reasonably okay in both the segments. The gross margin as of now is in the range of about US$0.70, US$0.75, which normally the benchmark is always in the range of about $0.90 to $1.

Rahul Jain: So, given the scenario today, and also there are currency issues in some of the countries in the globe, so has the situation eased now? And are you seeing some better inquiries or demand from the export side?

Neeraj Jain: Definitely, there is an improvement. And I mentioned in my initial comments also, that from India, the export is almost in the range of about 105 million kg, 110 million kg per month, which has been a normal export even with pre-COVID levels also. So, that means the overall demand from the export market is okay.

Of course, since the overall utilization in the entire world is still less, so that is where the margins are not improving, but as far as the exports from India is concerned, we are starting to see our normal volumes.

Rahul Jain: For my last bit, you mentioned in your commentary about China plus 1. You mentioned that we have been talking about China plus 1 for last 3 years and some of the customers are surely looking for additional source.

So, sir, given your understanding and the experience in this industry, you being a leader in the industry, in your assessment in last 2, 3 years, what is that structural change which the industry and Vardhman both are going through?

Because in general, cotton yarn has been a very cyclical business. We have 1 or 2 good years followed by 2, 3 years of issues on the demand or cotton prices going up, the margin is going down. So, typically, the changes which have happened in the last 2, 3 years, how do we perceive the change in the industry today and going ahead?

Neeraj Jain: So, there are very clear trends and changes which have happened in the last couple of years. To start with, one, most of the products' demand is today for 30 days delivery, 45 days delivery. Earlier, someone will book me down for 60 days, 90 days. That time is over. So, everyone wants a delivery in 30 to 45 days because everyone wants to reduce their inventories and they are looking at a better turnaround of their products. So, their first need is that the product has to be delivered in these number of days.

Two, the number of fibers that started increasing, both manmade and different cottons, whether it's organic, for example, the organic cotton, there needs to be one kind of organic. Today, there are 8 kinds of organics.

Similarly, if you look at polyester. There are 20 types of polyester today available. You talk of cellulose. There are 20 kind of cellulose available in cotton. So, every customer, and then they want a mixture of the particular cellulose, the particular cotton. So, which means the overall variety has improved or increased in a big, big, big way. So, that's another thing which has happened where we are posed to, one, deliver it well in time; two, at the same time, have to have the differentiated products.

Third, as the brands are coming to India, their the requirement of the new product is also very high. So, which means they will get some ideas. We will have to generate some ideas. So, both customer and vendor together, you have to keep generating new ideas so that new and new things for the customer could be provided.

So, that's yet another change which has happened, which generally was not there in the normal gray products, but we are finding also mixture of A to B, B to C, C to D so that something new and something different could be created. These are the three changes or fundamentals from the customer side.

In addition to that, there are two major changes. One is on capability. Second is on sustainability. Now, there is lots of passion on recycling products. There are lots of requirement of customer on reduction of carbon footprint. There are lots of requirements for them to stop using the fossil fuels, etc. So, that's on one hand.

On the other hand, they want a total capability up to, given a choice up to farmers, if not farmers, at least up to ginners. So, the entire chain has to work on their logistics has to be worked out so that you are in a position to give them visibility on the capability or on the entire supply chain.

Now these are very, very big changes. And last, not the least, the social compliances. As these brands are moving more and more to India, the requirement of social audit, social requirement is huge. And their expectation is also that all the organization, wherever they are working, they should be compliant to that extent.

So, I think that's, in a way, a natural advantage, which will go to the larger organization who can organize all these things. And all these customers which come from outside, another requirement is they want to consolidate their vendor practice. So, they are not interested to go to 20 vendors for every different product. They want one product, one factory where most of their products should be available.

And they also want their picking to be managed by the factory. So, someone is buying 5 tons of, let's say **………..** from me which they want 7 tons, 8 tons, 10 tons. So, I have to deliver them well in time.

So, we serve as the largest capacity and the capability to fill the product. I think that's an advantage, which naturally going from the customer to their side. These are all changes where all these customers or all these brands, which are looking at India as a serious destination, this is the basic requirement, and this is the reason we are rethinking of the entire model.

And this is the reason we have taken up this kind of modernization so that we already have lots of flexibility and capacity available to us, but I think we are relooking at it entirely from a different angle and preparing ourselves for next couple of years.

Moderator: Thank you. The next question is from the line of Akshay Kothari from JHD. Please go ahead.

Akshay Kothari: Sir, how do you foresee the demand from China?

Neeraj Jain: It's relatively less as of now.

Akshay Kothari: And when do we expect it to, your views on the same?

Neeraj Jain: They keep coming to us. So, whenever the prices go down, they buy from us. But I think one big change which has happened, if you look at an article, there was an article 3, 4 days back only.

In U.S., they have drawn samples from various brands or the various retail shops, and they have tested it for the banned cotton of China. And they found almost 90% cotton samples getting filled. I was given the name of the brand as well as the shop, but it looks like as the stringency of U.S. would keep increasing of these ideas, the demand for Indian yarn will definitely keep increasing even from China also.

So, I think till the time these issues are there, definitely I look forward because as of now, though there is all these requirements, legal requirements are there, but still it looks like the people from China are managing it. But I think as the stringency increases, there could be or would be a larger demand of yarn from India which is made out of the Indian or any other cotton other than China.

Akshay Kothari: And what would be the debt taken for this CAPEX, which you have announced?

Neeraj Jain: I think we are likely to take the debt in the range of about 50% to 60% overall long-term debt for this. In addition to that, whatever the working capital, that generally will take about 50%, 60% of that as well.

Akshay Kothari: And sir, I missed, there was some disturbance. This is a brownfield CAPEX, right?

Neeraj Jain: This is all brownfield.

Akshay Kothari: And sir, lastly, what is the application of this technical textile fabric? I understand 80% is polyester and 20% would be nylon. But where would it go?

Sagrika Jain: So, there are different applications. So, one would be sportswear or activewear. So, if we look at the raincoats that we wear, the down jacket, so the fabric that goes on the outer side of it, that would be one functionality. Then there are two industrial applications like belting, luggage. Then there are also defense applications. So, there are different segments. And this is an area that we are going to enter into. So, some would be existing customers, but a lot would be new segments and new customers.

Moderator: Thank you. The next question is from the line of Ridhhesh Gandhi from Discovery Capital. Please go ahead.

Ridhhesh Gandhi: Just to get an understanding, how are spreads actually, like currently in the cotton spinning compared to the Q4 and Q3 of last year? And if you could give us a view going ahead, if you see further normalizations happening in the spread?

Neeraj Jain: Sorry, I am still not clear on your entire question.

Ridhhesh Gandhi: So, I was asking about how the spreads are currently.

Neeraj Jain: Spreads. So, spreads in the third quarter have been a little less. Fourth quarter, spreads were better. But again, I will not say it happens because of the yarn prices improved. It happened only because the cotton prices came down. So, the spread was a little better in the fourth quarter compared to third quarter.

Ridhhesh Gandhi: And any outlook going ahead as to what can you expect a normalization to actually happen in the spreads and what's going to drive that?

Neeraj Jain: As I mentioned, still the time the utilization of spinning doesn't grow to about 85%, 90%, the improvement will not happen. So, we have seen last one year, the slow improvement has started happening as the consumptions are improving, increasing.

One thing is very clear, and I mentioned in the last call also, all the brands, there is no brand now who is talking about still the destocking. So, this I think is over. Brands are buying their day-to-day purchases on a regular basis. So, which means this much of demand, which is there today should continue, and it is to improve only. It may take maybe next 2, 3, 4 quarters, 2 or 3 quarters in my view personally for the normalization of demand, but definitely, things are improving quarter-by-quarter.

Ridhhesh Gandhi: And the current levels of utilization across the industry would be how much?

Neeraj Jain: 72%, 75%.

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

Akshat: I want to just ask that at what capacity technical textile can be run in future when it is ready?

Neeraj Jain: It all depends upon how our product goes, what kind of demand, what kind of margins are we looking at. We feel, for the domestic market, since the synthetic has to increase only, so there is a vacuum available as of now.

So, we are putting ourselves and project in hope that it should be commercially viable, and we should be in a position to make money also with the right product. And once we are in a position to establish the product and the margins are normal, then I don't think we have any limitation or any thought process that we will not be expanding. So, we will keep evaluating and looking at it in the future.

Akshat: And is it that it can produce extraordinary margins in comparison to cotton yarns?

Neeraj Jain: It can, depending upon what products because slowly a part of this will be going in towards more and more technical textile, maybe the fire redundant and those kind of products. In case we are in a position to establish that and make that, maybe not in 100% capacity, but a part of that capacity going in for the very, very specialized application can definitely or will definitely give us much better margins.

Moderator: Thank you. The next question is from the line of Ritvik Seth from One-up Finance. Please go ahead.

Ritvik Seth: Sir, just one clarification. Earlier in the call, you mentioned that the spread yarn cotton price is $0.70 to $0.75 per kg. Did I hear it right?

Neeraj Jain: Correct.

Ritvik Seth: And this is mainly because of increase in cotton prices, which has led to increase in yarn price and which has reversed to some extent in the current quarter, right?

Neeraj Jain: Yes, so the margins were lower, but as the cotton prices came down, the yarn prices were stable, the margin, to some extent, improved.

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

Nirav Savai: My question is regarding this power capacity, which we are putting. And am I right in understanding that you are increasing your power, green power share from 2% to 25%?

Neeraj Jain: Correct.

Nirav Savai: So, what is the incremental capacity which we are putting? And what will be the CAPEX behind that?

Neeraj Jain: So, the CAPEX, I think there are, we haven't figured out the total CAPEX because it's a different change we are evaluating, maybe in solar, maybe the wind, or maybe the hybrid or a mixture of both. So, tentatively, we have kept the provision of about 300 crores, 400 crores, 350 crores to 400 crores would be for this power for this particular year.

Nirav Savai: And what would be the cost savings and this would be done in 18 months?

Neeraj Jain: 18 months max.

Nirav Savai: And what would be the cost saving on the power side, which we will have?

Management: **…………** whether it is the **…………………** it would not be fair for me to comment what would be the advantage, But I think in most cases, we are looking at whatever we are investing, a payback of about maximum 4 years or so.

Nirav Savai: Sorry, sir, yes, I didn't get you right. Can you just repeat it again?

Neeraj Jain: Whatever is the investment, our idea is to get a maximum payback of 4 years on solar power or on green power.

Nirav Savai: And on this new spinning capacity, you were adding, what, about 50,000 spindles? Or you were adding 70,000 and some part of the existing spinning capacity will be scrapped? I didn't get it right. Can you please repeat it again?

Neeraj Jain: So, there are 2 projects. One is the open-end project, which is equivalent to about 35,000 spindles. It's a new project. And second, we are putting up about 70 odd thousand spindles and some 16,000 spindles will be scrapped. So, the net-net, there would be an addition of 17,000 spindles, making it a total of **……………….**.

Nirav Savai: And technical textile is another 300 crores? So, I am just asking the technical textile part is 300 crores. New spinning is about 1,000 crores. And about 300 crores to 400 crores would be on power, right?

Neeraj Jain: Correct. And plus, some debottlenecking as well as the modernization in our fabric division close to about 150 crores, 200 crores.

Moderator: Thank you. The next question is from the line of Abhineet Anand from 3P Investment Managers. Please go ahead.

Abhineet Anand: So, just on the CAPEX, good to hear new round of CAPEX coming for the company. Just trying to understand because it's not totally greenfield, some of them is modernization. In terms of asset turns, obviously, spinning is less than 1 and the manmade fiber that was talked about is also less than 1. So, I mean, this 2,000 crores in terms of financial numbers, let's assume, over the next 2 years and the ROC on that, any color on that, if you can highlight?

Neeraj Jain: I think on the top line, as you mentioned, because lots of modernization, which is happening, which may not increase the overall top line, and if you look at the expansion of 50,000 equivalent spindles and the fabric, the overall top line may increase by about 500 crores, 700 crores only, so which means on a CAPEX of 2,000 crores, we are talking of maybe 0.3 or 0.4 at best capital turnover ratio. But it will be more in terms of bottom line.

For example, solar power, we are not going to increase any top line, but I think it's an improvement in the or reduction in our cost of electricity. So, the margins may improve, but the top line numbers may not increase.

Abhineet Anand: I mean, that is the reason I said modernization will probably end up, green power will reduce that.

Secondly sir, if you can provide the broader breakup in terms of yarn and fabric, which typically we get from the annual report, but if it is 4Q, probably if you can give those numbers?

Management: As a matter of policy you will have to derive from the balance sheet.

Abhineet Anand: Or else, if Thapar sir can provide the average fabric and average yarn realization for the year, that would help.

Rajeev Thapar: We are not doing it separately. So, the data cannot be provided as of now. So, EBITDA, we are just monitoring at company level only, textile as a whole.

Abhineet Anand: Last bit, sir, this debt that we will be taking, will it be normal debt or some lower-cost of debt will be there?

Rajeev Thapar: Part of that could be the lower cost as well, but some of the projects will be coming in in Madhya Pradesh that will be open-end project. So, there could be a possibility a part of the debt could be some subsidized also, but that is a very, very small part. Most part of the debt will be the normal debt.

Moderator: Thank you. The next question is from the line of Rahul Sony from ICICI Bank Limited. Please go ahead.

Rahul Sony: Just one question. What kind of freight increase we have witnessed due to this Red Sea crisis?

Neeraj Jain: Definitely, the freight increase has happened especially to Europe and Latin America. But fortunately, our overall shipment in that region is much less as a company, but most of the shipment of yarn as well as fabric that goes within the Asia only, whether that's China, Sri Lanka, Bangladesh, etc., etc., Vietnam, Thailand, those countries.

So, I think though there is an absolute increase in those freights, but our overall kitty of products went through Red Sea is relatively very less. So, it's not really had a big impact on us.

Rahul Sony: So, what percentage goes to Europe as a direct export?

Neeraj Jain: 10%.

Rahul Sony: Just want one more thing. So, you are saying that you have witnessed in terms of absolute numbers. So, for that particular shipments compared to previous charges earlier than this issue escalated, so what was the percentage change there?

Neeraj Jain: For the freight?

Rahul Sony: Yes.

Neeraj Jain: Doubled.

Rahul Sony: Okay, it's doubled.

Moderator: Thank you. The next question is from the line of Monish Ghodke from HDFC AMC. Please go ahead.

Monish Ghodke: So, this 2,000 crores CAPEX, which we are doing, if I consider cost savings as my earnings, margin expansion as well as electricity cost saved, then what kind of ROC we have in our mind over a long-term period?

Neeraj Jain: Primarily, as I mentioned earlier also, so primarily, the idea was not only the cost savings. The idea was to create the capability to produce the differentiated products or to improve the overall delivery. That was the idea that we started looking at this.

But having said that, all these modernization should definitely bring in the improvement in the overall system. I mean, if I look at only the cost savings potential and look at all these modernization, none of this will make sense.

But if I include that with this, I should in a position to get a much better business from a much better customer. Probably it's very difficult for me to put it in as a number that this is a return I am going to expect from this modernization. But definitely, as we have seen last 1 year has been very tough.

In spite of that, at any stage, if I look at my 30 to 40 days delivery, there is always a challenge because huge pressure from every customer to deliver the products, which means the trend is changing or it's increasing where there are lots of opportunities where we are missing the business because we are not in a position to deliver.

So, I think that was the idea where all these modernization started happening, but if you ask me that what is the payback of this, or what is the improvement in the numbers only because of this, probably it will not make any sense to us.

Monish Ghodke: And sir, since our fabric capacity is also operating at almost full utilization. So, will we be planning CAPEX in that also going forward once demand improves?

Sagrika Jain: Yes, we are. As mentioned earlier, there are some debottlenecking activities that we are planning to do. So, we also understand that we are at a good capacity utilization. And this year itself, we would be looking at certain investment.

Moderator: Thank you. The next question is from the line of Apurva Sharma from Buglerock. Please go ahead.

Apurva Sharma: My questions are on the technical, the manmade side of the business. So, you have announced the CAPEX. Just wanted to understand in terms of, I know it's a bit early, but in terms of customers where we plan to sell, is there any initial sort of set of orders or inquiries that we have been working on and what part of it? Or is it we are building, there is a vacuum and then we will just set up and then we will see? If there might be some traction initially? And I have a follow-up on the same.

Sagrika Jain: So, as mentioned earlier, there are some synergies with existing customers. We have been in touch with those customers in order to get some insight, product specifications, and what products we are also looking for. So, that would be some portion. It would be difficult to give you a black or white at what percentage would be existing and what percentage would be new.

But rest assured, we also feel that there would, because the existing customers are present and are enthusiastic about this product, that we would be able to gain traction maybe sooner than what would have been, if we didn't have any customers.

Apurva Sharma: And so just what sort of time frame are we looking at to stabilize? Again, it's too early, but just wanted your sense on the same based on the conversations that you are seeing.

Sagrika Jain: It will take us 1, 1.5 years to commission and then, let's assume 1 year from that. So, I think we take a guidance of 2.5 years for us to fully establish the product.

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

Prerna Jhunjhunwala: On this fabric technical extend foray, I understand that you were looking at expanding the target audience for the business and the company. Just wanted to understand why the asset turnover will be lower in this business? And why the margins will be lower? These are special product. Not many people make it. So, why the margins and the asset turnover…

Neeraj Jain: So, we didn't say the margins will be lower. We only said the asset turnover ratio will be lower because most of, lots of these products will be polyester based or be filament based. So, the prices of that will be determined by the polyester or the filament prices only. So, asset turnover could be less, but we are not saying the margins could be less on this.

Prerna Jhunjhunwala: So, margins could be for our company average margins can be eventually when you establish?

Neeraj Jain: Of course, here, from the overall company's margin, it will be better because in any case, the fabric margins are better than the overall company's margin. So, it will also be better.

Moderator: Thank you. Ladies and gentlemen, we will take that as the last question. I now hand the conference over to the management for closing remarks.

Neeraj Jain: So, thank you very much on behalf of the company. I think we have seen a very, very difficult time, and we have made all the earnest efforts to come through or to pass through this time successfully. Of course the margins are less, we have issues and challenges in terms of overall profitability but definitely, in terms of customer satisfaction, in terms of developing new products, and in terms of shop floor manufacture, in terms of the cost saving potential for the ideas, we have been working continuously in this difficult time so that because at all these difficult times, there was lots of energy or lots of ideas to sell these, lots of conviction to sell these ideas to our people. And the entire management is working day in day out to look at what more improvements we could bring in in our overall system.

I am sure that the overall demand started improving last 2 or 3 quarters and that trend should continue. And hopefully, maybe next 2-3 quarters, I think once the business becomes normalized, we are geared up and we prepare ourselves for the next phase of improvement. And so at the moment things start improving, we will definitely look at a much better margin from today's level.

So, I thank all the investment community who have always been with us and have the faith on us. And I am sure as management, I assure you that whatever is possible in our hands, we are working day in day out, and we are always looking at improvements internally, whichever area it is.

So, thank you very much once again, and look forward, maybe the next call after a quarter also.

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