sutlej
textiles and industries limited

SUTLEJ TEXTILES AND INDUSTRIES LIMITED

Lotus Corporate Park, 'E' Wing, 5th/6th Floor,
185/A, Graham Firth Compound, Near Jay Coach,
Goregaon (East), Mumbai 400 063, INDIA.
Phone : (022) 4219 8800/6122 8989 Fax (022) 42198830
E-mail : info@sutlejtextiles.com Website: www.sutlejtextiles.com
CIN. : L17124RJ2005PLC020927

16th February, 2024

BSE Ltd. Phiroze Jeejeebhoy Towers, Dalal Street, Fort, Mumbai 400 001. **Scrip Code: 532782**	**National Stock Exchange of India Ltd.** Exchange Plaza, 5th Floor, Plot No. C/1, G-Block, Bandra - Kurla Complex, Bandra (E), Mumbai 400 051. **Scrip Code: SUTLEJTEX**

Dear Sirs / Madam,

Subject: Transcript of Q3 & 9M FY24 Earnings Conference Call

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, kindly find enclosed a transcript of the earnings conference call for the quarter and nine months ended 31st December, 2023 which was held on Monday, 12th February, 2024. The same is also available on the website of the Company i.e. www.sutlejtextiles.com.

The conference call held on 12th February, 2024, as per the Transcript enclosed incorporates mainly the highlights of financial results upto 31st December, 2023, and other related information which is already in public domain and / or made available / uploaded on the Company's website.

Please take the same on record.

Yours faithfully
For **Sutlej Textiles and Industries Limited**

MANOJ VINOD CONTRACTOR
Digitally signed by MANOJ VINOD CONTRACTOR
Date: 2024.02.16 14:01:54 +05'30'

Manoj Contractor
Company Secretary and Compliance Officer

“Sutlej Textiles and Industries Limited Q3 & 9M FY24 Earnings Conference Call”

February 12, 2024

MANAGEMENT: **MR. S. K. KHANDELIA**
ADVISOR TO EXECUTIVE CHAIRMAN
SUTLEJ TEXTILES AND INDUSTRIES LIMITED

MR. RAJIB MUKHOPADHYAY
WHOLE-TIME DIRECTOR & CFO
SUTLEJ TEXTILES AND INDUSTRIES LIMITED

Moderator: Ladies and gentlemen, good day and welcome to Sutlej Textiles and Industries Limited Q3 & 9M FY24 Earnings Conference Call.

From the management panel, we have with us today Mr. S. K. Khandelia – Advisor to Executive Chairman, Sutlej Textiles and Industries Limited and Mr. Rajib Mukhopadhyay – Whole-Time Director & CFO.

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

I now hand the conference over to Mr. Rajib Mukhopadhyay – Whole-Time Director & CFO. Thank you and over to you, sir.

Rajib Mukhopadhyay Thank you. Good afternoon, everyone and welcome to the Earning Conference call for Sutlej Textiles and Industries Limited for the 3rd quarter and nine months of FY24. I trust that you are all doing well. With me on the call today, Mr. S. K. Khandelia, Advisor to the Executive Chairman of Sutlej Textiles and Industries Limited and Stellar IR Advisors, our investor relationship team. We have already uploaded the investor presentation and I hope everyone has had an opportunity to go through the same. Let me start the call by giving you the financial highlights of the quarter and nine months gone by, after which Khandeliaji will fill you in with the business highlights as well as the industry highlights.

For quarter Q3 FY24, our consolidated total income came at Rs. 612 crores as against Rs. 670 crores in Q3 FY23, mainly on the back of continued sluggish demand of textile industry in both export and as well as domestic market. In Q3 FY24, although volumes increased by 10%, year-on-year realization dropped by 17% during the same period. On a Q-o-Q basis total income decreased by 17%, mainly on account of lower volume. In the preceding quarter, total income was higher mainly on account of the liquidation of inventory.

EBITDA loss for the quarter is Rs. 1 crore as against Rs. 30 crore loss in the previous quarter and Rs. 21 crore profit the previous quarter last year that is Q3 FY23. For 9 months ended FY24 our consolidated total income stood at Rs. 2,062 crores, gross margin came at 36.6%. EBITDA stood at minus Rs. 26 crore.

As we have been updating you, our efforts at strengthening our balance sheet continues. During the quarter, we have reduced our total debt by Rs. 68 crores to Rs. 724 crores as against Rs. 792 crores as on 30th of September 2023 on standalone basis. Our current debt to equity ratio continues to stay below 1 and currently stands at 0.76. During nine months, we reduced the working capital debt by Rs. 172 crores and at the same period working capital has reduced by Rs. 304 crores.

Those were my opening remarks. I will now request Khandeliaji to please take it forward with the business and industry updates, sir.

S. K. Khandelia Good afternoon, everyone. Thank you, Rajib. And thank you all for joining on this conference call. The year has been challenging for the entire textile industry in general and the spinning industry in particular, due to ongoing geopolitical crisis, reduction in discretionary spending on account of high inflation etc. This resulted in supply outstripping demand and that has led to fall in realization rates and margins in exports as well as in domestic markets. Reduced exports of yarn and downstream products like garments etc. put further pressure on domestic markets, dragging down the realization rates and margins. Rising imports from China of knitted and woven fabrics has been another challenge.

In short, Q3 has been more challenging than Q2 and this was against the general market expectations. I am happy to say that despite increased challenges in Q3, we could improve our performance from Q2 by fine tuning our operations and product mix as per evolving market situation. Though challenges are still persisting, the global economy after a tough couple of quarters is now seeing moderating inflation and a speedy growth which is likely to help consumption as discretionary income should start increasing. With the greater than expected resilience in the United States and several large emerging markets and developing economies, we are seeing some green shoots of recovery. The Indian growth story continues to gather momentum and we are likely to see some growth in domestic market as well.

With a strong foundation and agile organization, we remain focused on adapting to changing dynamics of markets and customer needs. We are hoping to deliver better performance in forthcoming quarters and we are cautiously optimistic. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question-and-answer session. The first question is in the line of Leeway investments. Please go ahead.

Amit Aggarwal: My question is regarding we have a Red Sea problem, so is it difficult to export right now and will it hurt our export margins? What is the situation at present?

S. K. Khandelia Exports in Q3 were down and now we are seeing little improvement in January and a little bit in February. But in Q3, exports were down as compared to Q2. And realizations and margins were also very much low in Q3 as compared to Q2 and as compared to corresponding period last year also. But now we are seeing little improvement in export demand, but margins are still under pressure because Red Sea crisis is there and other challenges are there.

Amit Aggarwal: And my second question is regarding debt reduction. So, we have debt reduction, is it because we have less inventory or we have postponed our expansion plans?

Mr. Rajib Mukhopadhyay Sir, as far as the debt reduction is concerned, it is actually directly proportional to two factors. One is the term loan reduction for the repayment. And the second factor is working capital reduction due to the reduction of the working capital level. So, these are the two factors contributed to the reduction level.

Amit Aggarwal: Sir, have we reduced the total inventory position also?

Mr. Rajib Mukhopadhyay Yes, of course. If you compare with March position, we have reduced working capital almost by Rs. 300 crores. If you compare with just last work quarter ending position, then the reduction will be around Rs. 100 crores.

Amit Aggarwal: And my last question is regarding, now we are moving our domestic brand from wholesale to retail. So, do you intend to spend more marketing this year, in next 12 months?

S. K. Khandelia: The marketing of the retail brand takes little time. So, it is slowly progressing month after month and we are very hopeful that in going forward it will give good results. But it will take some time before it actually starts delivering better results. But it is in the course.

Amit Aggarwal: So, do we intend to spend more on marketing this year? Advertisement and marketing of the brand?

S. K. Khandelia: It is proportionate and depends upon the requirement. Of course, we are continuously doing something on the brand building and the advertisement.

Moderator: Thank you. We'll move on to the next question that is from the line of Prerna Jhunjhunwala from Elara Capital. Please go ahead.

Prerna Jhunjhunwala: Just wanted to understand the scenario in blended yarn business. We observed that all the blended yarn companies are facing challenges and having tough time creating profits over the last three to four quarters now. So, could you highlight what are the key challenges and what can be done to improve the same?

S. K. Khandelia: As far as blending of yarn is concerned. I think there are not many players. But the sales to the brands like Raymond, Siyaram, Donear or international brands or the garment manufacturers who are the brands. The overall demand in the system has been low, so the sale of the garments for example by the international brands in the international markets. Similarly, sale of the fabrics by say Siyaram, Raymond etc. in Indian markets has been poor because the discretionary spending was at the back seat. That was the reason the demand of the garments and other things are not there. The demand of yarn is also impacted because ultimately it is the garments which drives the entire value chain. So, since it was not there but we hope because destocking was taking place. Secondly, everybody during the entire pipeline; whether the yarn or whether the garments or fabrics (because the prices have been continuously coming down) has lost money (degree may be different). So, nobody wants to have the stocks because they lost heavily only in the matter of stocks. And now they feel that everything is readily available so pipeline is practically empty and everybody is buying only to the extent they want. So, until and unless demand comes to the normal level in pipeline also because the rates are still more or less continuously falling due to one reason or the other, because the raw material rates have also been falling and yarn rates falls ahead of the raw material rates and they were falling disproportionately. But hopefully I think the trend should reverse slowly and gradually going forward and that should start encourage the downstream players to buy again and we hope that gradually things should start improving. We are seeing marginal improvement in demand in exports and export brands. There are different types of yarns which we manufacture. So, we are seeing some improvement in demand particularly from the brands.

Prerna Jhunjhunwala: And if you could help us in understanding if QCO implementation is a benefit to us or not because we understand that QCO has been applied on polyester yarn as well. I may be wrong, if you can correct me on that as well?

S. K. Khandelia: QCO is there in polyester and polyester yarn. But actually what was happening, it was not only the yarn. Major import was of the fabrics from China and that is still happening and that is creating a big problem in Indian markets. Bhilwara and Ludhiana are the markets badly impacted where the lot of Chinese fabrics are coming from directly or through other countries. So, far, polyester QCO it was already there. It has happened I think a year or back so. So, polyester imports are practically zero. And in case of yarn, of course the yarn import was less. But the fabric which was there it is still continuing and rather quantity is increased. Anybody who was increasing, importing yarn little bit, they will now be taking fabrics.

Prerna Jhunjhunwala: How do we see, are we coming back to profit? How long it may take or it may take a lot of time…?

S. K. Khandelia: We are making required changes in the product mix as I mentioned, that we keep on fine tuning our operations as well as our product offerings as per the evolving situation. This time it was the worldwide recession, practical challenges, and inflationary pressure. Like in US you have never seen such level of high interest rate, high level of inflation, historically high in 40 years. Secondly, the post pandemic demand was very robust, so, a lot of new capacities came in and that created excess capacity in India in all the sectors. These are the challenges but we know that how to handle these challenges. But of course, the improvement will be gradual and it will not be overnight. We are confident that gradually we will see the challenges and in the course of time we will come back to our original position once the market also comes back to that level. Even if there will be little variation, we are sure that we will come back to our original level.

Moderator: Thank you. The next question is from the line of Aditya Vora from Share India. Please go ahead.

Aditya Vora: Just had a couple of questions. One is on the demand scenario. I'm assuming that the festive season wasn't great and it's reflected in the numbers. But any clue about how the wedding season is? Because we still have January and February for the wedding season for this financial year. So, how is the wedding season shaping out? Is it becoming better than what it was anticipated?

S. K. Khandelia: Q3, as is already over. We are today in mid of the February and only little bit time is left with us. There has been improvement in order flow from the last week of December. It is the order which starts first and then the margins little bit improve going forward. So, Q4 we expect to be better than Q3, but exactly how better it will be it is difficult to quantify because it's a very dynamic situation. Everyday raw material prices and yarn prices fluctuate. But the level and the way in which order flow is happening particularly in export (we have different segments including cotton, cotton mélange, synthetic dye etc.), some of the segments have started moving. Synthetic dye is still not moving in domestic market. Of course in export there has been some improvement. So, we hope that the Q4 will be better than Q3.

Aditya Vora: And since you have got so much of experience, according to you where would we be in the cycle? Are we kind of at the bottom of the cycle and we see a great runway ahead or where are we in the cycle? Just kind of a if you can tell me qualitatively?

S. K. Khandelia: I personally feel and we hope that we are at the bottom of the cycle. But the recovery will be slow and gradual.

Aditya Vora: And one last question, which is not much related to Sutlej Textiles, but just wanted a perspective that when I was looking at these home textile companies, most of these companies are recording good volume growth and they have seen the entire restock happening in the US market. So, is that kind of a precursor to companies like us who are spinning companies?

S. K. Khandelia: In home textile after pandemic, people have been spending a lot of money in home textile because of work from home and other regions. And earlier, you see, the home textile has gone down earlier and they have come up earlier. The yarn business has gone down later after home textile. And in case in our home textile as you said, we are only in curtains and upholstery and there our exports have definitely improved. But in domestic market we have slowed down. We have changed our policy little bit regarding the payment system and others that we will sell in domestic to the extent of the receivables and other things keeping under control. And our cut service is also gradually improving, but naturally in retail business the growth is slow initially and then it takes off. So, this is the question in home textiles, say, linen, rugs and all those types of things, growth has been very good. And competition is also less because of China one plus policy also and Pakistan which used to be big exporter, they are in little trouble. So, all those benefits have been ripped by the companies, home textile players like Welspun, Indo-Count etc. And they were already well-established and integrated. So, integrated players in home textile are doing well.

Moderator: Thank you. We'll move on to the next question that is from the line of Nish Shah from Stellar. Please go ahead.

Nish Shah: My first question is regarding capacity utilization. In Q3, our capacity utilization was 79%, which is 6% down Q-o-Q and 16% down as compared to Y-o-Y last year. So, why it is so?

S. K. Khandelia: Yes, it was so because as I mentioned in my opening remarks that we have been fine tuning our production and utilization as per the evolving demand and market situation. When we found that in some of the capacities which we were running even we are not able to cover even variable expenses, we decided that there is no fun in running those types of capacities. And since Q3 was more challenging than the Q2 because the geopolitical tensions increased and impact of Israel Hamas war was fully blown in Q3 initially and then gradually tapered out. Demand was less in India also and demand was very less in export. Our exports have gone down very much in Q3. So, as per the market conditions, we reduced spindles. But now, the capacity utilization is better at this point of time.

Nish Shah: And sir, what levels can we expect for FY25?

S. K. Khandelia: I hope that we should be at the normal level.

Nish Shah: And sir, next question is regarding home textile segment. Our revenue for home textile segment as compared to Q2 is almost negligible growth. Like in Q2, we did Rs. 50 crores and in Q3 also we did almost 50,76,000,00. So, what is the reason behind this almost negligible growth and what do we expect in the future for this segment?

S. K. Khandelia: Yes. Our revenue has gone down only in domestic segment and that is also not in cut service but in the domestic wholesale sector because there we have intentionally reduced the volume at this point of time. There were certain overdue payments so we were trying to collect those payments and then again we will start increasing our volume in domestic market. That was the reason nothing else.

Moderator: Thank you. The next question is from the line of Sumeet Bhambri from Standard Chartered Bank. Please go ahead.

Sumeet Bhambri: One question on your debt levels. What is your target debt to equity level that you're working towards? You said you're at 0.79, correct?

Mr. Rajib Mukhopadhyay 0.76, yes.

Sumeet Bhambri: Sir, if you can tell me what is the target level?

Mr. Rajib Mukhopadhyay: It will vary because working capital position varies depending on the cotton procurement cycle. One cannot uniformize throughout the year for an ideal number, but the level whatever we are in, probably it will be marginally up in the time of March ending because the cotton procurement will be higher than now. So, giving an ideal number throughout the year will not be right, but broad level overall I can say that 0.7 to 0.8, this should be the ideal number of the debt to equity we should maintain. That's the way we are targeting.

Sumeet Bhambri: So, that's your target number that you're working with, right, in that range?

S. K. Khandelia: We always try to keep it below 1. But normally it will vary from 0.7-0.8 something, even sometimes 0.65 also.

Sumeet Bhambri: Because the reason I was asking the question was on seeing that consistent trend, year-on-year decrease. So, is there a long term plan to sort of continue to keep bringing it down right so that interest expense continues to come down and efficiency continues to improve?

S. K. Khandelia: If the profits are good, it will keep on getting down. So, you see that there have been two barriers. One was the pandemic year and this year has been there. Our target is always that irrespective of anything, we have always to keep it below 1. So, it will keep on going down from here. If the next year say, if everything goes well, it should go down.

Sumeet Bhambri: I had one more question, you were talking about the home furnishing segment, right? So, we are seeing real estate markets in quite a few regions is quite strong, right? So, are you seeing that translating into higher sales?

S. K. Khandelia: Yes, it should. Hopefully it should translate into good sales, better sales as compared to current sales in next year. This is what I also feel.

Sumeet Bhambri: And finally, I know you were making a point that to one of my colleagues' question was you do expect to get to original levels in 2025, FY. So, what are the levels that you're targeting?

S. K. Khandelia: So, that reply was in relation to the capacity utilization. You see, our capacity utilization, we are utilizing all the spindles, 100% capacity utilization which used to be the situation always. Because the profits and earnings it all depends upon the market conditions and everything. So, utilization level, I expect that next year we will be reaching to 100% as we used to. Only this year our capacity utilization has been lower.

Moderator: Thank you. The next question is from the line of Prerit Chaudhary from Green Portfolio. Please go ahead.

Prerit Chaudhary: I have a question related to the home textile segment. So, what could be our current utilization levels for this segment?

S. K. Khandelia: Current utilization level is around 39% but that includes some job work also. The overall market has been down for particularly in domestic market for curtains and upholstery in some of the segments and some of the markets. So, that's why it was little down, it was about 39% and gradually it should improve next year.

Prerit Chaudhary: So, we are planning new customers. That's what I'm seeing in the presentation. And with the domestic market currently slow and we are at 70%. So, do we plan the CAPEX in small to medium term?

S K Khandelia : What we are doing is we are focusing more on exports. Our exports are improving year-after-year. And so far domestic market is concerned, we have made our policy very clear that we will be selling mainly to wholesalers. There are three segments in our home textiles. And another is the job work. First is the exports, second is the domestic market and third is our cut service. In domestic market as I said that we have intentionally reduced the volumes and it is tied with the payment terms. If we get the payment in time then only we are selling and it is being sold to the only wholesalers. Third is the cut service. That is our Nesterra brand. And that we have started around two and half years back. And that is doing well. We are satisfied by its performance and hopefully in future it should be the good sector of our home textile business because it will be a cut service direct to the consumers through retailers. So, we are working on that aggressively and whatever CAPEX will be required for that, will be done. But at present the CAPEX requirement is not there.

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

Akshay Kothari: What would be cotton as a percentage of our RMC, raw material cost?

S. K. Khandelia: It should be around 40-45%.

Akshay Kothari: What is the export contribution? You were saying that in Q3 we did less of exports so generally what is the run rate we do and what was it in Q3?

S. K. Khandelia: You see normally our exports are about 40% and our exports were down by 26% as compared to Q2. Now I think hopefully there's some better flow of order is there. And hopefully in this quarter, the exports will be better as compared to Q3. Normally the export will be 35% to 40% of our total production.

Akshay Kothari: In which geographies do we export majorly?

S. K. Khandelia: We export to 70 countries of the world and to the developed countries as well as the African countries, Middle East, Russia, Europe etc.

Akshay Kothari: Okay, so we export yarn only?

S. K. Khandelia: We are exporting home textiles also to the developed countries, US and Europe, UK

Akshay Kothari: Sir, because in one of the other Textile company’s call, they mentioned that Red Sea crisis did not impact them much because all the developed countries actually do not procure yarn from us. We export yarn to the likes of only Bangladesh, Vietnam and China and so Red Sea crisis actually did not impact much the yarn players.

S. K. Khandelia: In our case it is not like that. We are exporting not only apparel yarn. We are exporting various types of yarn for different types of end use. We export various types of yarns for home textiles, industrial application and maybe for medical application too; to USA, Latin American countries, South African countries, East African countries, Middle East. Turkey is our big market for the export of synthetic dyed yarns and that is also very much impacted because it also goes through Red Sea. So, the impact on the yarn exports has been very severe initially, but now people have started taking for the longer route yarn and they have started paying for the extra cost also.

Akshay Kothari: Generally what are the incoterms in general? Is it FOB or CIF, freight cost would impact us?

S. K. Khandelia: It depends upon country-to-country, customer-to-customer, product-to-product. We try FOB but in many times it is CIF. So, 50-50 you can say.

Akshay Kothari: And lastly, what is our current capacity utilization?

S. K. Khandelia: As we mentioned, the current capacity utilization is about 90%.

Moderator: Thank you. The next question is from the line of Vineet Jain from Wise Investments**.** Please go ahead.

Vineet Jain: I had a question on the revenue mix. You were focusing on the domestic part. So, could you guide us like what could be the revenue mix for FY25-26, is there any plan on the table?

S. K. Khandelia: You have seen in the past also, and in the current year quarter-to-quarter it may vary. But our revenue mix is normally, say as I mentioned, our exports are 35% to 40%, and domestic is 60% to 65%. This has been our normal revenue mix year after year. 2/3rd domestic, 1/3rd exports you can say that.

Vineet Jain: Yes, but product mix, if you can share a little bit.

S. K. Khandelia: In certain exports, it may be a little more. In certain exports, it may be a little less. But broadly, most of the products we export, it remains more or less the same ratio.

Vineet Jain: One more question I had on the margins. Like when we are doing good sizeable business, why is that we are not able to increase our margins irrespective of whatever dumping there is or like what can we do?

S. K. Khandelia: Margin is the product of the market conditions. It depends upon demand and supply. It is not in our hands. It's a competitive business. It's not only domestically competitive, it is internationally competitive. And then it depends upon the product mix. So, far product mix is concerned we always keep on evolving new products as per the market requirement, fashion changes etc. So, at present if you will see each and every yarn company depending upon this segment they are, whether synthetic/ cotton/ dyed/ grayed, they vary from segment-to-segment but overall the sentiment has been poor, margins have been poor. So, basically the reason has been the low demand and over supplies. Supplies is over stripping demand.

Vineet Jain: Yes, I understand the point you made, but what I was trying to figure out was that since we are in this business since a long time, there would be some niche product where we would be having benefit or benefit of margin in our time. Is there any certain product?

S. K. Khandelia: For example, cotton and cotton melange yarn. That's a specialty yarn. There are many, say, Lycra type of special yarns. So, that we keep on developing but you see every product has a cycle. So, new products we keep on developing and old products keep on going down. But in such type of markets people prefer lowest quality material. They don't want to make experiments and take new developments. Actually it's an abnormal situation but in normal course you see we have been developing and new products have been taken by the market. There the niche products margins are better in other products. But the niche can be limited. It cannot be 100%, there will always be some percentage of the niche product which we will continue to have that.

Vineet Jain: So, do we have any plan like wherever we can sell those particular niche products to new customers if we can identify new clients?

S. K. Khandelia: That we always keep on looking into; different end use, different customers, different countries, and all those types of things are marketing. People keep on doing research and based on that, customer feedback and other things, we have the full-fledged development centers for development of these products. So, that keeps on going on.

Moderator: As there are not further questions, I now hand the conference over to Mr. S. K. Khandelia for his closing comments.

S. K. Khandelia: Thank you very much for your very insightful questions. So, my closing remark is that we are cautiously optimistic about the coming quarter and the forthcoming all quarters. Thank you.

Moderator: Thank you, members of the management team. Ladies and gentlemen, on behalf of Sutlej Textiles and Industries Limited that concludes this conference call. We thank you for joining us and you may now disconnect your lines. Thank you.