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**SUB: TRANSCRIPT OF EARNINGS CONFERENCE CALL OF VARDHMAN
TEXTILES LIMITED – Q2 FY23**

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 31st October, 2022 to discuss Q2 FY23 results.

Kindly take the same on record.

Thanking you,

Yours faithfully,
FOR VARDHMAN TEXTILES LIMITED

(SANJAY GUPTA)
COMPANY SECRETARY



“Vardhman Textiles Limited Q2 FY-23 Earnings Conference Call”

October 31, 2022



MANAGEMENT: **MR. NEERAJ JAIN – MD, VARDHMAN TEXTILES LIMITED**
MR. RAJEEV THAPAR – CFO, VARDHMAN TEXTILES LIMITED
MR. MUKESH BANSAL – SENIOR VP, FABRIC BUSINESS, VARDHMAN TEXTILES LIMITED
MR. SUSHIL JHAMB – DIRECTOR, RAW MATERIALS, VARDHMAN TEXTILES LIMITED

MODERATOR: **MR. ABHISHEK NIGAM – BATLIVALA & KARANI SECURITIES INDIA PRIVATE LIMITED**



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Moderator: Ladies and gentlemen good day and welcome to the Vardhman Textiles Limited Q2 FY23 Earnings Conference Call hosted by Batlivala & Karani Securities India Private Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhishek Nigam from Batlivala & Karani Securities India Private Limited. Thank you and over to you sir.

Abhishek Nigam: Thank you so much. Hello everyone. Good evening and thank you for joining us for Vardhman Textiles' second quarter results conference call. We are joined today by Mr. Neeraj Jain – Managing Director, Mr. Rajeev Thapar – CFO, Mr. Mukesh Bansal, who is the Senior VP from the Fabric Business and Mr. Sushil Jhamb, who is the Director for Raw Materials. I now handover the conference to Mr. Jain for opening the marks.

Neeraj Jain: Good afternoon, everyone. The second quarter numbers are over. It's already with you, which I'm sure you would have looked at it by this time. Just to give you a brief, this was a period which was kind of a very unique period where most of the spinning industry, not only in India but I think outside also is suffering as of now. There were basically two challenges where the industry was facing or it continues to face. One, the Indian crop last year got damaged and the overall cotton crop was much less, close to about 30 million bales or so. On the top of that, because of the custom duty, the imports could not be done well on time because the cost was much more expensive. As a result of that Indian cotton started increasing, the prices started increasing in India much more than the even international parity. The Indian spinners had a bigger disadvantage compared to the other parts of the world where we started losing our competitiveness. As a result of that the spinning capacity was much underutilized. It is estimated as on today I think almost the cotton consumption is not more than 50% of what it used to be the normal consumption. That's the estimate as on today, which has both the factors:

One, part of the spindles was stopped pan India and also the part of the spindles were converted on the alternate products which may be viscose, which may be 100% poly spun and so on then the profitability could be either very low or maybe not, maybe small losses could also be there. But the fact is that the cotton consumption has come down to 50% during this period. So, the peak consumption which was estimated close to about 90,000-95,000 bales a day, in most part of this period it was estimated India has been consuming close to about 50,000 bales per day.

We also because generally from India we were doing an export of closed about 110 to 120 million kg per month. In this period if you look at the last three months our average export from India has been in the range of 35-37 million kg only so which means we've lost close to about 70% of our exports in this period and also the domestic demand also had some pressure because all this capacity which has stopped, initially people tried to divert to the domestic market and the domestic could not absorb so much of yarn as a result of that things became worst. Also, if



you look at the other segments whether that's home textile, they've been operating at much lesser capacity for the last 6 months, Denim similar condition, knitting also in a similar condition. So, the overall scenario has been good. The only silver lining in this period has been the woven yarns which was better than the rest of the industry because after the COVID as the markets were opening as the offices were opening, schools were opening. There was some surge demand on the woven fabric side which is—I will not say very great but—definitely better compared to the other parts of the textile value chain and we are also operating our woven fabric division close to about 90% utilization.

So, this was related to India if you look at the outside India, all of us are aware that there's been issues of high inflation, interest rates increase, EMI increasing because of that and also the gas price issue because of the Ukraine war where the disposable income in the hands of people whether it's Europe, USA has been much less compared to what it used to be and it has an immediate impact on the discretionary demand so discretionary demands wherever the demand could be postponed I think textile comes into that segment. Look at the demand in this period has been much-much less and even sentiment as on today is not very positive, so I think that's also was forcing the let us say utilization so India we started losing more or we started losing our competitiveness much before but eventually as the time passed, I think starting somewhere August and September most part of the world today would be operating in our view at a capacity utilization of about 70% when it comes to the spending, be it China, be it Vietnam, be it Pakistan. Pakistan had their own issues of floods and all where the cotton crops not available so they were losing more, India have already explained, so even Vietnam, Bangladesh, Pakistan I think the overall utilization has been very less.

The third factor in this segment was also the last year when the COVID was there, there were lots of challenges on the supply chain. So, most of the brands they were putting up more orders than what they could have consumed for two reasons. One, the supply chain they were not very sure when the material would be reaching them. Two, since the prices are going up daily so nobody was minding it. Everyone wanted more material to be bought because otherwise if you buy after a couple of weeks, it was increasing prices. Everyone was happy buying more both on supply chain and increasing price trend. In this period supply chain was far better. It started restoring their all positions, things were reaching in normal period of time. So, whatever it was the excess inventory in the system, the brands were not ordering their further orders on account of reduction in the overall stocks which they were carrying. This was the third impact. One is the normal demand which got concerned to the demand from India because the cotton prices was a challenge and third most of the people whosoever was there in the world market, they had an excess inventory and since the price of cotton started coming down, inflation concerns were there, everyone was having a concern on the consumptions going forward. Everyone in the system decided to reduce their inventories. Whatever the normal demands normally come in even that was not there and the last 2-3 months period has been pretty bad. From that perspective



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not only for us but I think for most part of the textile chain players worldwide. These were the three major factors which have impacted the overall textile industry.

Coming specifically to Vardhman, so in terms of our spinning capacity I think off and on we have been stopping our capacity in the range of 10% or so. So, our productions were 10%, sometimes 12%, 10% down and another about 8% to 10% capacity was diverted to the alternate product which was non-cotton. So maybe not making money but at the same time maybe helping us in reduction in the losses. When it comes to our woven fabric we were still in a position to utilize almost 90% of capacity on the process woven side, the grey weaving we sell some surplus grey weaving fabric also. That capacity utilization was in the range of 80%-85% but the process I think still we could manage to do close to about (+90%). The future prospects, now the new cotton crop is started coming in India and also the last year since the quantity was not there the quality of the cotton was also very bad. It was also a challenge to maintain the quality of final products with that kind of a quality of cotton. Most of the spinners were taking losses in terms of realizations or in terms of yield to ensure that the proper quality of yarn could be given in the market. The next season is started in terms of prices in the meantime in the future kept coming down and from a peak of about 140-145 US cents per pound it is today close to about 72 cents per pound. So practically it's come down to about 50%. The Indian prices have not come in line as of now because we still have a shortage in India because the season is just started and we hope maybe next one week or two weeks' time our prices will get totally aligned or in parity with the international prices. The Indian prices are still close to about 2,400-2,500 this is positive on the New York Future which is one of the highest and that's again a cost of shortage and our arrival is likely to pick up maybe next one week and we hope by that our Indian cotton prices will also be in parity with the international prices, which means the Indian spinner will start losing or gaining the similar amount which the other parts of the world are doing. Last 3 months was the situation where we were losing more because our cotton prices were higher compared to the other parts but I hope now going forward I think towards the middle of November or end of November depending on which spinner has how much cotton available to them for the previous stocks but surely December onwards I think our prices or our loss or gain would be aligned to the international gain or loss as far as the spinning is concerned.

Two, the overall quantity of crop looks good and whenever the quantity is good the quality generally is good. So, if these things both go in hand in hand. So, if the quality is good then quantity would be good or a vice a versa if the quantity is good the quality is also likely to be good. The overall crop size as for the CII figures, they have estimated it to be close to about 344 lakh bales whereas the industry estimates are this could be in the range of about 360 lakh bales for this season. The quality till now seems to be quite good and we hope once the arrival picks up at least both in terms of quality and in terms of quantity the Indian spinner will start getting some breath, maybe next couple of weeks.

The final part when the capacity utilization would improve, it's very difficult for me to say as of now because it's not related with India or with Vardhman. I think till the time there are troubles,



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issues, difficulties in the western part of the world, it's likely to be difficult to continue or to start the full operation by most of the industry. So maybe everyone will try because today we lost our competitiveness because of the cotton prices and we lost lots of exports. But I hope with the cotton prices becoming reasonably at a reasonable level in comparison to the international prices, there will be some activities which will be improving in India even though the situation may not improve outside. My personal belief is that bales of almost 45% spinning cost it will definitely be improving in the times to come, even though there could be some shortage of demand worldwide which could be in the range of about 10% to 15% it's anyone's guess but we believe 10% to 15% demand overall what could be reduced. So, the cotton assumption which was estimated to about 25 million tons per annum for this year initially, it may come down to maybe about 23 million or less than that also. The time will tell how the demand reworks and how the overall situation in the western world improves or deteriorates.

Looking at all these uncertainties, we've been looking at the various things what internally we could do to pass through this time. One is of course we have to look at whenever best possible, how do we ramp up our capacities which we are trying to work on. Also, the second was whatever the cost control measures or whatever the possible ways of continuing or maintaining the relations with the customer, I think that's one another area where the huge amount of work is going on with us and we hope whenever situation starts improving, we should be definitely the earliest one to restart all operations. I think out of the stocks spindles almost 40%-50% spindlers we are likely to start maybe next week or two weeks' time.

Third I think looking at all these uncertainties we have also decided to defer our expansion plans as of now, to wait for the right time to come in. So, I'm not saying defer means a very long-term deferment. We just want to look at how the situation was and how the overall consultation of things happen and to that extent whatever were the expansion plans will just put it on hold for maybe couple of months and once the normalcy happens we'll take a view only after that. In the meantime, the two plants which were under implementation, one at was Vardhman Yarn which was a Cottex plant close to about 35,000 spindles that's fully operational as of now. The other spinning plant 65,000 spindles at Budhni, that also got delayed because of the supply chain issues and the various electronics and the machinery available from outside. But it's now under commissioning and I hope that maybe next one month or so we'll start operating it partially and by 31st December I expect the plant to be fully operational. Of course, we have to look at the viability and I'm not talking about that from the plant's readiness perspective, I think the next one month we might start looking at starting the trial runs and maybe by 31st of December we'll try to complete this project as well. This is overall what's our thought process and what's happened in last quarter. Now I'll request for the question answer session and I think the remaining queries whosoever has we will keep answering that. Before that Mukesh you want to add something which I missed.

Mukesh Bansal:

No, sir you have covered quite good.



Neeraj Jain: I think this is what from a company's perspective. Now I'll request you to start with the question answer session so then we can take it up accordingly.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question-and-answer session. The first question is from the line of Aman Madrecha from Augmenta Research Private Limited.

Aman Madrecha: Can you help me with actually like what percentage of the spindle capacity we are running at currently? Number two, I would like to ask is that as you said that the industry is operating at 40% to 50% and over the next 2-3 weeks and when the cotton arrives, then industry is expected to start operating at not normalized capacity but at better capacity utilization than the current level. But what we were reading was that many of the spinning mills have converted themselves to produce this viscose or the other manmade fibers, so can you please highlight on that?

Neeraj Jain: I already covered this in my speech, but for the benefit of you and others I will again repeat. So, we stocked close to about 10%-12% spindles and another 10%-12% we converted on the alternate products like viscose or spun. So as of now out of that stocked capacity, we have started it partially maybe 50% of that and the remaining also we have to look at how do we do that? The converted capacity on viscose and poly we are still continuing because of still the cotton prices are high in India and the enough orders are not there even as one today also. Third I only said since Indian cotton prices are much higher so the losses were higher here. So the spinning activity got a bigger damage in India and my belief if our cotton prices are almost aligned to the international markets, probably we will be utilizing better capacity in India compared to the 40%-50% cotton spinning which is stocked as on today. So both the cotton availability and how do the market behave because there are two silver linings for India, one most of the brands whatever stocks they had, they are now almost vanishing so maybe it's a matter of another 3-4 or 6 weeks where the orders will start coming in because they have exhausted all their stocks, the pipelines are already emptied. Two, since our raw material prices will be aligned so we will not be losing higher or we will be as I mentioned earlier losing or gaining same which the other parts of the world would be doing. So, we'll be comparative to that extent. So, both these factors gives me a feeling that the utilization would improve. How much I think we'll have to wait and watch but it looks like from that perspective, utilization perspective the worst is over for India. Worldwide others are supposed to stock 20%-25% we have stocked 50%, so maybe the others continue to stock at 25% from 50%, we improve our utilization to about 70% or so. So, we'll have to wait and watch. But surely from India's perspective it looks the worst is over.

Aman Madrecha: Secondly, I would like to ask is that because currently we are witnessing that the cotton prices are coming down and can you highlight on the spreads like how are the spreads like at current cotton prices and yarn prices, are we at a break even or are we incurring losses like some highlight on the spreads part?

Neeraj Jain: Most of the products it would be break even I'll say as on today.



- Aman Madrecha:** Can you highlight something from the demand from the Bangladesh front? Because for us a large part of our product is exported to Bangladesh. So how is the situation over there? Because they were also facing some turmoil on the production part and the economy part.
- Neeraj Jain:** Bangladesh biggest customer for them also is Europe only. It's nothing to do with the intermediated customers whosoever is producing what. The ultimate demand is left from the western world which is Europe and USA. That will impact whosoever is producing that. Since the orders are not there or the demand is less from Europe to Bangladesh, so the Bangladesh also is operating at a much lesser capacity today on the garmenting side. So, when they are operating at a lesser capacity, they are also not requiring the yarns. So, it's a full chain. So, Bangladesh is not an end consumer. The end consumer is Europe, USA for Bangladesh majority part.
- Moderator:** The next question is from the line of Falguni Dutta from Jet Age Securities Private Limited.
- Falguni Dutta:** I have two questions. First is, could you just quantify the current spreads?
- Neeraj Jain:** I already said the current spreads is almost breaking even with the current cost of cotton.
- Falguni Dutta:** I mean, could you quantify that? Because last time you had, I think, mentioned one number. So, I just wanted to compare. You said it's breaking even.
- Neeraj Jain:** Yes. So, it's close to about ₹70-75 as of now.
- Falguni Dutta:** Another question is in terms of your optimism; how would it be different compared to what you said in Q1? Would you be slightly more positive than your commentary in Q1 or at the same level or negative? As regards the yarn demand situation.
- Neeraj Jain:** One is in the medium term, what I had mentioned earlier, I still have the same belief that all brands who are looking at India as a serious player continues. People want to look at China plus one, that continues. There's no fundamental change from that perspective even today also. The first quarter, I was very clear that things are becoming difficult and challenging first, because at that stage, the demand issue was not there that bad in the European, because the effect of war was not looking at in the gas prices at that stage. But the cotton was already a concern. After that, I think because of very high gas prices, lots of hue and cry in Europe, which is giving us lots of concerns, things are coming out slowly. Indian perspective, the only advantage we have is that now it looks like our cotton prices or our raw material prices are aligned to the international prices. That's where my belief if the spinning has stopped by about 40%-50% time, I personally feel there should be some recovery only though the margins may not improve till the time our utilizations are less but at the same time at least the losses which spinners are having because of stopping the capacity they start covering their costs and slowly as improvement happens, let's say from 50% we can improve to about 75%-80% capacity utilization I'm sure the things will start, will surely be better compared to what it is. From the capacity utilization's



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perspective from India's perspective, it looks like the worst is over. From here we will improve only. The possibility of further spinning stoppage will be

Falguni Dutta: One last question is, we would have exhausted all our last season's crop, right? Would we have any cotton inventory?

Neeraj Jain: 30th September we would have because the new season starts only in the month of November. I think partly we would have those cotton available. But yes, by days' time I think we are exhausting some cotton. But 30th September if you talk of, I think 1 ½ months or so, inventory must be there in the system for everyone, and the new cotton will start only somewhere in November.

Falguni Dutta: 30th September, I missed you. You said, half months or 1.5 month?

Neeraj Jain: 1.5 months or so, that's my feeling.

Moderator: The next question is from the line of Prerna Jhunjhunwala from Elara Capital.

Prerna Jhunjhunwala: I think this is a fantastic set of results in current scenario so congratulations on the same. I just wanted to understand the demand scenario a little bit in detail. You mentioned that woven demand is still better than other segments. Could you please give us some color with respect to domestic and international how things are panning out and how is the order book panning for the next season?

Mukesh Bansal: I'll take up that question. Actually, if we look at the new orders placement, even in the second quarter people were working on correcting their inventories which they had bought in the second half of the previous financial year. People were still sitting on higher inventory than usual because of two reasons, one, they bought more because of the pent-up demand and second because of the logistics was at that time that started easing out, so all of a sudden, they had inventories which they would have anyway land in US in the next 2-3 months, all of that landed so simultaneously. Third aspect is that the change of working system rather than 100% work from home, the system converted to hybrid, so people started going to the office, so they needed more formal wear than the casual wear. So, on these three accounts there were inventory buildup which was the impact of that was still prevailing up till the second quarter. Now we believe that that may not have 100% corrected as of now but certainly there is a lot of corrections would have happened on the inventory side. Second after that is that now in addition to the inventory correction so there are new issues which have cropped up which is inflation and the fear of recession that is happening. So, as a sum total of that we expect that the demand in the coming quarters could be slightly better especially from the US market. But Europe is still likely to remain subdued because of the energy prices and the war prices. As far as India market is concerned in India because of the yarn prices were very high end of the Q1 and beginning of the Q2, and the people were looking at the new cotton prices are going to be low, so people have



been holding on to the new purchases. But the sales were not as low as were the purchases. So, we expect that the inventory in the pipeline would have reduced by this time. Maybe November, December when the cotton prices are also in an affordable range, cotton and yarn prices both, and also the inventory correction would have happened so the demand may come back to a better level, may not be still normal as Neeraj Ji mentioned that demand will still be 10% to 15% lower worldwide, but still, it will be better than what it is today.

Prerna Jhunjunwala: This gives some clarity, but international summer season orders are they also impacted as of now because order booking for summer season would have also started. One more addition to this question is with respect to deemed demand. Though there is some pressure, I understand, but China plus One opportunity should help in both yarn and fabric to sell or export more to countries which were earlier sourcing from China. So that opportunity still remains with India.

Mukesh Bansal: Absolutely. Neeraj Ji also mentioned that. One is the demand from a like-to-like perspective that the same customer and the same program. There we still see some decline because of the inventory crisis and natural lower level of buying because of the fear of recession. But then suddenly there are new customers who are wanting to buy from India. And during the lockdown period when there were COVID restrictions, people were not able to travel as much as they are open to travel now. But then as you make a beginning, there are some gestation period, three to six months, when you entertain a new customer to get your facility certified, you do some sampling and all that. So, the impact of which will start flowing in maybe from fourth quarter of this financial year.

Prerna Jhunjunwala: My next question is on expansion. If we are confident on India opportunity gaining more strength going forward and capacities will take at least 12 to 14 months to come in, why this deferment in expansion plan for some time also and what are the plans for expansion in the fabric business?

Management: The question is if we are seeing an opportunity in the medium to long term, why are we deferring our expansion plans?

Neeraj Jain: No, it's not a question of defer for very long period of time. I think as I mentioned in the last call also even today if we look at the deliveries of machines, most of the people are still talking about 2-2.5 years because the supply chain is just started getting re-adjusted and I hope things will be better. Two, because of the cost factor still everyone is talking of a much higher cost. My belief is even if we delay it by 3 to 6 months' time, I'm sure the end times could still be achieved with a much lesser cost, with a better prices also. It's not going to give us any major disadvantage even by deferring that. The only thing is I think let the things get stabilized and I still feel that the perspective of 3 years expansion which we have taken can still be achieved even if we delay it by 3 to 6 months' time. So not really a big issue for in my view.

Prerna Jhunjunwala: 3 to 6 months. That is understandable.



- Neeraj Jain:** I think if the things improved we will definitely take a view immediately after that.
- Prerna Jhunjhunwala:** Any plans on the fabric side or any other product extension that you are looking forward to taking into consideration that India has a much larger opportunity?
- Neeraj Jain:** In terms of our apparel fabric whatever we can do, we are continue to doing that. The only in our view, one major change which is likely to happen in the times to come is the more of a synthetic based products. Definitely we are gearing up ourselves in terms of creating more better capabilities for the synthetic processing, specially polyester cotton etc. Those are some of the ideas which we are already doing and since it looks like that product range can go better, I think we are just trying to prepare ourselves and trying to invest both the soft knowledge and the asset for that.
- Prerna Jhunjhunwala:** My last question as of now is how much inventory, old inventory would you still have in the system because I could see that there was no major hedge gain that you got in this quarter?
- Neeraj Jain:** Prerna, as I mentioned earlier, normally the new cotton season in India, the full cotton arrival starts somewhere in the month of November only. Since it was a period where there was no cotton available, everyone within the system whosoever they are running because we would also be having I think the inventory of about 1.5 months or so on a reduced production base. Because otherwise as we consuming it in a full basis probably there would have been a shortage of cotton and it would have been difficult to run the operations whatever we are carrying. To that extent, we re-adjusted it and based upon the reduced consumption, there would be I think the overall inventory of about 1.5 months or so which is getting re-adjusted and we are slowly started buying the new crop and I hope maybe next couple of days we'll start getting the new crop in a full-fledged way.
- Moderator:** The next question is from the line of Roshan from B&K Securities.
- Roshan:** I just wanted to understand what is the risk of inventory loss in 3Q?
- Neeraj Jain:** There will be inventory loss in one, whatever cotton is available; the prices of yarn is already readjusted to the need of future. To that extent I think there will be definitely a revaluation happening. Two, in the books of accounts, every factory they look at their cost of consumption and on the top of that they add the cost of conversion. So that's how the finished goods or the WIP inventory is there. Once our cotton prices comes down from the..... the new crop which will be much cheaper, probably there would be a valuation hit also which will be coming in third quarter as a one-time..... . So, it's difficult for me to quantify or to share it as of now. But yes, that's surely likely to happen in third quarter.
- Roshan:** If you can share the average cost of cotton that you have?



- Neeraj Jain:** For everyone it will be in the range of I think the entire industry, it will be in the range of about anything between Rs. 85,000 to 95,000.
- Moderator:** The next question is from the line of Awanish Chandra from SMIFS.
- Awanish Chandra:** The first thing, a book keeping question. When we say our total spindle capacity as on annual report FY22 11.3; does this include 35,000 that you have commissioned?
- Neeraj Jain:** No, that's after that.
- Awanish Chandra:** So currently it is 11.6, lakh spindles?
- Neeraj Jain:** Yes, whatever because the installed capacities which is actually installed in the packing and anything which is coming after that is over and above that.
- Awanish Chandra:** And you are adding 65,000 that will get commissioned hopefully by December so total would be then 12.2?
- Neeraj Jain:** Total 12 lakh spindles.
- Awanish Chandra:** Putting all together when everything gets commissioned it will be 12 lakh spindles. We have seen all kinds of margin in the last three-four quarters, good-bad-normal. So, any color you can give in a normal demand environment and let's say cotton settle around 65,000-70,000 per candy? What one can expect in the terms of margin?
- Neeraj Jain:** No, it's nothing to do with the Indian cotton prices. One has to look at the New York Future where what is the world markets and based upon that the yarn prices will get re-adjusted based upon that. The Indian cotton is only a residual figure where we should be aligned to the international prices. If New York Future today is at 72 cents, theoretically our cotton should be in the range of about 75 to maybe 80 cents. Whereas actually our cotton is still at 92-93 cents so it's still expensive by 10 cents-12 cents per pound which we hope, it's again because of the shortage as of now today in India because the arrivals are still not picked up. That's why this gap is there. This gap has been coming down compared to the international prices. But I think still that gap is there. We hope next week-10 days' time, this gap should re-adjust to quite an extent. 65,000-70,000 has no sense, no issues, no concern, it's only whatever is the New York Future, are we aligned to that or not, that's more important.
- Awanish Chandra:** My last question, what would be our strategy of inventory acquisition? Here we used to have 6-7-8 months of cotton inventory so are we going to change in this current cycle or what would be step?



Neeraj Jain:

It all depends upon three factors. One is what is the kind of quality we are talking of. Two, what is the kind of commercial future prices we are talking of. Third, the international demand prices compared to the Indian situation that whether our cotton is at discount or is at premium. We haven't decided as on today anything that what is we are going to do. But I think once the season start in, we'll have to decide those policies but definitely I think some stockage will have to have because otherwise we will not be having the quality at a later stage. So, I can't say whether it will be 6 months-7 months-8 months or lesser. It all depends upon the quality deterioration as well as our price. Our judgement on the price is going forward. It's too early to say as of now because in any case today going by the Indian cotton still expensive and the world market nobody is talking of adding anything into stocks. Its only everyone is just starting buying on a day-to-day basis. Once our prices are aligned and then looking at a future outlook, we'll have to take a view and I think it will may be take us another 1.5-2 months to start making up our mind on the stocking policy.

Moderator:

The next question is from the line of Surya Narayan from Sunidhi Securities.

Surya Narayan:

Just to understand the wait and watch mode of the industry and sustain a continuously for the second quarter I mean third quarter, we are actually seeing that the industry is waiting for alignment of international prices. The local prices are not aligning. So, just to understand the situation that as per the USDA reports and World Trade is projected nearly 1 million bales lower and the off take of China and Pakistan is lower. The overseas countries like even Bangladesh, they have around 40% to 50% advantage to us. If that alignment doesn't materialize maybe by December or so. So, what is the comfort zone the industry is looking at? Because we are still 50% higher than the long-term average of around 20,000 bales that kind of scenario. Where the industry will get comfort to initiate buying or because if you see the recent including your numbers, the recent balance sheet positioning is that the companies are simply paying off the current working capital debts and they are sitting in a lean position. Just to understand when the activity is expected to start?

Neeraj Jain:

There are two factors to that, one would be demand of yarn that I can..... yarn and One is the demand of yarn where if the demand yarn is there then probably, we'll start looking at people will reconvert or recalculate their prices of raw material and it makes sense then they will start buying. So, it depends upon how the yarn behaves, how the demand behaves and that's one comfort. But I think from India's perspective, more important is that our historic difference from New York Future is in the range of about 5 to 10 cents over and above the New York Future. Today if the New York Future is at 72 cents that means our cotton should be in the range about 80-82 cents best case scenario, whereas today it is close to about 92 cents. 10 cents per pound is too expensive. That's where this comfort is not there. Nobody is talking of Rs. 20,000-30,000-40,000 is a good or a bad price. The only thing is that international prices or international cotton whatever is price is there, our Indian cotton we should be having some discounts compared to the landed cost of imported cotton because of the quality, because the imported cotton quality is relatively better in terms of contamination etc. Normally Indian cotton on a landed cost basis to



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any spinning country, Indian cotton should be 3 to 5 cents lower than that. That situation is not there as of now. I'm only hoping that within the next 2-3-4 weeks that situation should come in. Till the time that situation doesn't come in, nobody is going to add any stock so people will do only buying day-to-day basis to run the existing capacities which we are doing. Nor I'm expecting any bigger spinning activity to improve unless the cotton prices comes to the level which I have mentioned.

Surya Narayan:

My second question is that specially for the countries like Bangladesh or China which are actually the target market primarily is Europe rather than ours, majorly US. In that case, if continuously the EU market will be weaker due to the military situations there. So, if that transfer as for a longer period then obviously some inquiries may come from the Bangladesh side for the US market and our kind of target zones because they are also serving to marquee clients. One is that these emerging from or these could emerge either Bangladesh or maybe Vietnam could be getting cheaper cotton from US and other areas because the Indian cotton prices are not aligning to international prices?

Neeraj Jain:

It's not like this. It's very difficult to convert on the garmenting from one country, one supplier to the other. It's not very easy but it is easy to replace the spinner. So, what was happening in this period, since our cotton prices were higher, we were not in a position to supply to the world markets because our cost were higher has so the business got shifted from India to Vietnam or to other parts. Since the overall demand was less so Vietnam would still continue to export better yarns, whereas the India was losing. Suppose Bangladesh, we were not in a position to supply as our cost were higher so Vietnam would have been supplying to them. When it comes to an end product or the garmenting or the home taxes, I don't think that changes very fast in a big way. But yes, the spinning supplier could be changed in a relatively easy way. It's nothing to do if Europe does not good do probably Bangladesh will start doing at the US orders and so on, it's not really that big an issue, one. Number two, when it comes to the spinning, because our major business is spinning and we are all export based in primarily with direct or indirect, including our weaving division, we are 60%, 70%, 80% is the exports direct, indirect. It's really not bigger issue for us whether USA does good, or Europe is not doing good. Eventually, wherever the demand is there, because we are supplying material to Bangladesh, which is supplying to Europe, we are supplying in India which is supplying to US, and we are supplying to the other countries which may be supplying to Middle East or other parts. So, till the time the overall demand is good, things are better for the entire industry. If the overall things are not good, wherever the reduction is there the spinning will take a hit. Whosoever will be competitive with the raw material prices, they'll keep supplying to those countries where ultimately garmenting or home textile would be made, the under manufacturing.

Surya Narayan:

A follow-up question is that last year the Bangladesh did a RMG export of around \$40-45 billion and much above than ours to Europe and other countries. So, if Bangladesh will not, let's say, take more of our raw material from our side due to the higher prices, there are reports that



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Bangladesh and other countries, they are downsizing their production this year. If that happens, will India get some of the pie of Bangladesh, let's say \$10 billion or so? Is it possibility?

Neeraj Jain: No possibility, because Bangladesh is not in a position to continue with the production, because there is no demand in Europe. Bangladesh is much more competitive when it comes to the garmenting compared to India. So, if they are not in a position to take orders, there is no possibility that India will be in a position to take those orders which Bangladesh not compete. Because as far as the yarn prices are concerned, Bangladesh or Indian garmenter will get the yarn prices at the same prices. So, there is no disadvantage to Bangladesh if they want to import yarn. The yarn prices blended price of yarn to India or to a country outside is almost comparable.

Surya Narayan: In that case, can we see a significant reduction in the volume, overall trade in international markets compared to last year?

Neeraj Jain: That's what we are talking. That's what I'm saying. If the spinning overall in the world is running only about 70% or so, it's a significant volume drop which has already happened.

Surya Narayan: What kind of volume degrowth globally we are talking of? Is it more than 50%?

Neeraj Jain: No, our assumption is as of now, because ultimately the more impact is Europe, so our assumption is the demand drop can be in the range of 10% to 15%. I look at from the cotton consumption's perspective, because if we look at the Cotlook number so the last year, they had estimated the consumption in the range of about 25 million tons. This year their latest figures, they've given it to 23.6 million tons. They have dropped it by about 6% to 7% times. And as the time is passing, I'm sure they'll keep correcting that. Our idea could be anything about 12% to 15% drop in the cotton consumption could be there.

Moderator: The next question is from the line of Roshan from B&K Securities.

Roshan: I was just trying to understand the risk of yarn imports from China and the risks attached with the imported Chinese yarn eating into the market share of Indian players.

Neeraj Jain: Let's look at we are the net exporter of yarn to China. That only happened because we were competitive as a country. Now, this year as I mentioned earlier also our raw material prices were much higher where the prices in China were much less. They could export the yarn to India. But once our costs are normalized, once our raw material is normalized, I'm sure once we'll be competitive, there's no issue or concern or a chance for the Chinese to dump yarn in India. I don't have those risks in my mind.

Moderator: The next question is from the line of Suryanarayan from Sunidhi Securities.



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- Suryanarayan:** Can you give any ballpark figure in the cotton ecosystem? How much could be going towards the home textile, denim and the woven fabrics and knitted fabrics.
- Neeraj Jain:** I am sorry, by that bifurcation of figures won't be available.
- Suryanarayan:** Any ballpark figure will suffice.
- Neeraj Jain:** Not really. Not possible, because it's very difficult to estimate that. We have only estimation of how much do we do cotton spinning, how much do we do for the other fibers. But within those segments, there's no estimation available anywhere.
- Suryanarayan:** In your sample, when you target your clients, you could be knowing what they are producing, right?
- Neeraj Jain:** From Vardhman's perspective, we do close about 30% for our internal fabric region. And out of that remaining 70%. Our here is almost 70% in favor of knitting and about 30% in favor of weaving.
- Moderator:** As there are no further questions, I now hand the conference over to Mr. Abhishek Nigam for his closing comments.
- Abhishek Nigam:** Thank you everyone for joining us and many thanks to the management for taking out time for this call. Thank you and have a great evening.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of Batlivala & Karani Securities India Pvt. Ltd., that concludes this conference call. We thank you for joining us and you may now disconnect your lines. Thank you.