Vardhmān
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VARDHMAN TEXTILES LIMITED

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SUB: TRANSCRIPT OF EARNINGS CONFERENCE CALL OF VARDHMAN TEXTILES LIMITED – Q2 FY24

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 03rd November, 2023 to discuss Q2 FY24 results.

Kindly take the same on record.

Thanking you,

Yours faithfully,
FOR VARDHMAN TEXTILES LIMITED

SANJAY
GUPTA

(SANJAY GUPTA)
COMPANY SECRETARY

"Vardhman Textiles Limited
Q2 FY2024 Earnings Conference Call"

November 03, 2023

ANALYST:	**MR. AKSHAY JOSHI– BATLIVALA & KARANI SECURITIES INDIA PRIVATE LIMITED**
MANAGEMENT:	**MR. NEERAJ JAIN – JOINT MANAGING DIRECTOR – VARDHMAN TEXTILES LIMITED** **MR. SUSHIL JHAMB - DIRECTOR OF RAW MATERIALS – VARDHMAN TEXTILES LIMITED** **MR. MUKESH BANSAL – HEAD – FABRIC MARKETING – VARDHMAN TEXTILES LIMITED** **MR. RAJEEV THAPAR – CHIEF FINANCIAL OFFICER - VARDHMAN TEXTILES LIMITED** **MR. VARUN MALHOTRA – HEAD OF FINANCE – VARDHMAN TEXTILES LIMITED**

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

Akshay Joshi: Thank you and good evening. Welcome to Vardhman Textiles Limited 2Q FY2024 earnings conference call. We thank the management for the opportunity to host this call. We have with us today Mr. Neeraj Jain Joint Managing Director, Mr. Sushil Jhamb, Director of Raw Materials, Mr. Rajeev Thapar, Chief Financial Officer, Mr. Mukesh Bansal, Head of Fabric Marketing and Mr. Varun Malhotra Head of Finance. Without further ado I would like to hand over the call to Mr. Neeraj Jain Joint Managing Director of the company for his opening remarks. Over to you Sir! Thank you.

Neeraj Jain: Good afternoon everyone. Thank you for joining this call. We have declared the results. I am sure you have gone through the same. The results are almost in line with the first quarter maybe a little lower than the first quarter, but in any case not really much of improvement in the overall numbers are looking like. In terms of business this has been again continue to be a challenging. for the spinning industry worldwide, not only for us, the demand for the yarn is not improving. Of course it was much worse if you look at two or three quarters back. So from there it is improved in terms of demand and most of the today spinning is running on a full capacity basis. At the same time, it is still on over suffice situation as a result of that. The margins are not improving at all. So this has been a period where I mean, if you look at the two or three last calls, we always talked about lots of stocks availability, brands not ordering. The other orders come in and this area segments, which is not doing good but I think if you look at the current period wherever or whichever brand wanted to destock that is one and the brand have started coming back for the normal buying. Maybe they are not buying 100% of their requirement, but they are definitely buying 75, 80, 85% of what they think is the requirement going forward. So to that extent, there is an improvement happened but at the same time still the overall demand not on full basis which used to be there. The impact of higher interest rates, the impact of higher gas prices because of the Russian Ukraine, the impact of high EMI because of the higher interest rates and food inflation etc, etc., still hurting most of the USA and as a result of that again as we have been discussing the discretionary demand where the textile comes in is comparatively low. As a result of that, since our segments are spinning and weaving, I think there is some negative impact especially on the spinning side in this period. There are four major segments in the textile industry which is home textile, knitting, denim and weaving. If we look at all the four segments, home textile in terms of consumption is doing reasonably well for last couple of months and they are practically running the full capacity for the last six months or so, so which means their demand has started improving and this is one segment. Of course, the prices of yarn are not increasing or the price of home textile may also be under pressure but at the same time, at least their utilization for the Indian mills are surely better. The second segment where we started looking at some improvement was the woven fabric. Most of the companies which started the work from home kind of a concept in the COVID period most of the companies started looking at compulsory coming to the office partially if not fully as a result of that the demand for formal fabric improved because when the COVID happened, woven fabric was the worst hit at that stage and now since the people have started going back to the offices, they have started looking at the formal clothing. The woven has definitely improved and for us also I think these are the one or two months where our utilization is definitely one of the best and I will explain it a little later once again. Third segment is the denim which is one of the biggest segment but it is not being good and of course is the knitting so both denim and knitting which is considered as more of a informal or casual kind of clothing these are not doing well because as people are moving back to the offices, the demand for these products are less as of now and as a result of that there is a pressure on these segments and since these are the large segments, this is putting the pressure further on the spinning side. On spinning side India normally used to do close to about 110 and 115 million kg of exports per month, which came down to as low as 30-35 million kg some 7-8 months back but as of now we are back to the normal and our overall export from India is in the range of about 110-115 million kg per month, which means in terms of volume at least we have started matching what we used to do early. The second part is the local consumption. I think definitely there is a pressure because of direct and indirect both. So the local consumption means the knitter, denim manufacturers or the weavers or garment who are buying yarn in India and they are exporting the products to the outside world. I think there is reduction over there to the Indian consumption also looks like a little lower on a lower side. As a result of that, I think in spite of normal exports of yarn, the overall yarn is very, very depressed as of now. On the woven side, these have definitely improved as I mentioned for Vardhman also, we are in a position to utilize almost full capacity for the last one month, two months and we hope that this trend is continued as of now going by whatever orders we have or whatever predictions we have or whatever visibility we have. The things are looking positive and I think that is one of the advantage Vardhman's number as of now that this business is doing better both in terms of volume as well as on the profitability as well. On cotton side this has been again a very, very different period. We have seen the last year cotton behavior. So in Indian scenario from the original crop size of estimation of about 330 lakh bales since the crop arrival was very, very less in the initial period it was estimated maybe the crop will be very, very less and at one stage CAI kept reducing their crop estimates and they came back to as low as maybe 295 lakh bales or so, 290, 295 bales as a total crop size. But eventually I think it was rather than the less quantum I think it was more of a hoarding or more of a lesser deceit which was there in the market, which was done by the farmers. But I think by the time we ended the season on 30th of September the total crop size was almost 320 lakh bales which was not very bad compared to the initial estimation of 330 lakh bales and I think that gave some deduction in the prices towards the end of the season but otherwise it was estimated most part of the season since the crop will be very, very less the Indians may not have availability of cotton because the import could not be done because of the import duties and as a result of that everyone in the system was going long whether it was farmer, whether it was spinner or a trade but eventually, as the crop kept coming slowly the prices got adjusted and the enough availability of cotton was there almost for the full year. The new season has started. Again the industry estimate is still close to about 320 lakh bales but I think the first official crop estimate which has come in from CAI, they have given a crop estimation of 295 lakh bales. Once again they feel because there is attack of pinworm in some of the areas where it is felt that maybe crop size could be lower so again showing a concern, so they have shown a top size of 295, consumption of 311, so which means there is a reduction of almost 16 lakh bales and if you look at the closing stock 30th September it was estimated close to about 40 lakh bales and in case we reduce another 16 lakhs out of that by the end of next September the overall closing stock is estimated only 22-23 lakh bales. In case that happens, this is going to be very, very difficult for India to manage the entire system because we have so much of spinning. There are different stakeholders and anyone and everyone will have some stock of cotton and managing the entire country with 20-22 lakh bales definitely could be a concern, but as far as the industry estimations are concerned, they are still feeling the crop size may not be less than 316 to maybe 320 lakh bales even as of now also.

So on one hand we have an issue where if the availability becomes a question mark. Two the New York future in this period has been coming down. As per the latest estimation of consumption, now the consumption have been reduced from 24.9 million or 25 million tonnes to close to about of the agencies rated it as 23.9 million tonnes also. So there is likely to be some increase in the overall stocks. So which means the worldwide there seems to be enough cotton available. The prices are under pressure so most of the time New York future has been in this period in the range of about 87 to 88 cents or 85 to 87 cents which has come down to 80 cents as of now, so the Indian prices today are close to about Rs.56,500 to Rs.57,000 a candy, if we convert into the US cents it is close to 86, 87 cents. Till the time we have international cotton or a New York future in the range of about 82 to 83 cents so which means our cotton will be 300 to 400 basis points over and above the New York future which has been the normal trend if we leave the last year. But the worry could be in case New York future keeps coming down and comes down to let us say 75 cents, 76 cents in that scenario our Indian cotton will not go below this because 56,500 or 57,000 practically becomes the MSP prices where the CCI will start operating and they will start buying the cotton and in case they corner some of the cotton, the prices will not come down. So we have a situation where the New York future if it remains there I think it is not really big of a concern for the Indian spinning, but in case New York future goes down further to 75 cents or so in that scenario, our cotton at 86-87 cents will be almost 1000 to 1200 on which will be a little expensive because the Vietnamese are in a position to get the contamination free cotton in the range of about 900 to 1200 basis points and in case we get the

Indian cotton at 1000 points, I think it is definitely a disadvantage for the Indian industry. So this is yet another challenge that how the New York future will be placed going forward and to that extent, how the Indian prices will behave. Third is in terms of the quality. As of now though there is some concern, but at the same time there does not seem to be any big disadvantage in terms of quality till now. But we will have to keep watching because it is only the starting of the season as of now only about 100,000 bales per day has started coming in. The overall crop size which has come into the system from 1st of October is only about 25 lakh bales or so as of now. So we will have to wait and watch for another two months so that by the time we take a call that how the overall crop, quality, arrivals happen. So the next one-and-a-half, two months are quite challenging for the spinning industry and will have to look at how things evolve so that we are in a position to make up our mind in terms of our stocking policy as well as how the prices will be ranging in this particular period. So these are couple of issues and challenges where the industry is struggling with as of now and I think that struggle though in terms of the business cycle in terms of the China plus thought process, I think things are quite favorable for India as of now and most of the brands whosoever was committing, I think they are looking at India as definitely one of their possible supplier of goods. So those are some positives also, but at the same time because of the oversupply situation of spinning as of now the things are under pressure for sure and we will have to wait for some more time till the time the normal demand happens. But in the meantime, as I mentioned, since the woven for the company has been better, so our results are better. I will request Mukesh to give some more brief to the investors on the woven marketing fabric side then we can start with the Q&A. Over to you Mukesh!

Mukesh Bansal: Thank you Neeraj ji. Good afternoon everyone. As far as the fabric business is concerned, as we mentioned during the last quarter call also the international brands had three major concerns while placing the orders. One concern was the current inflation because of the inflation there was lesser disposable income with the consumers. Number two was the fear of economy going into the recession and third concern was their carried over inventory in hand with the retailers. So we are also seeing the results of some of our retailers who published their results internationally. Now the first two concerns still remain which is the inflation and the fear of recession, but the third concern, which was the inventory in hand, that concern has more or less, the inventories have come back to the near normal levels barring few brands in some brands the inventory could be abnormally low, in some brands it could be higher, but by and large in the supply chain the inventory has come back to the normal level, which has triggered the demand to a big extent. Particularly we are seeing the demand from the US market. We are seeing it from the UK and from the European market also after a long time. The demand has started building up and Japan is also one of the bigger markets for us and from Japan also since the COVID happened, the market has never revived. Now we are seeing the revival in the Japanese market as well. Next biggest market for us is the India, Indian market the retail situation at the moment still continues to be a little subdued, but it could be the reason because this time the festive and the marriage season was little late, which is the major time when the people go for shopping. The garments since this time the Dussehra, the Durga Pooja and Diwali were little late so now that demand has started picking up and we along with our customers, we expect that the next 6 to 8 weeks we will see a good demand in the Indian retail sector also, which will enable the retailers to put the money back into the materials. So the Indian demand is also likely to pick up. Another aspect that Neeraj ji also mentioned is the China plus one strategy many, many brands are now focusing. So day by day the concern of sourcing from China and people saying that Chinese cotton may find a way in the supply chain those concerns are increasing that is why the brands are also putting more emphasis on buying from India as India does not buy any cotton from China. Then the sustainability and traceability practices also come under the focus and Vardhman has that natural advantage, we being the 100% vertical integrated. So more than 90% of the yarn that we consume for the fabrics, it comes within the Vardhman and then we have to trace back the cotton wherein we have very good practices in place. So we are able to give full traceability to our customers. So we have that natural advantage. As we mentioned that in second quarter our capacity utilization was better than Q1 and Q3 is going to be better than Q2 and in any case H2 for the fabric business because it is largely spring for international market we are primarily cotton based textiles, so H2 is better than H1. So we are likely to continue sequentially better numbers as far as fabric is concerned. That is from my side Neeraj ji.

Neeraj Jain: We can start with the QA and whatever are the queries we can resolve it or we can reply it as the questions are asked.

Moderator: Thank you. We will now be beginning the question and answer session. The first question comes from the line of Rushabh Shah with 03 Securities. Please go ahead.

Rushabh Shah: So my first question we have spoken of MMS becoming larger portion of the overall pie. How does it alter our competitive dynamics of the country and what are your thoughts on what can help our company to grow and get bigger share of MMS in the coming future, let us say next five to seven years?

Neeraj Jain: Definitely if you look at the world consumption the MMS is much higher than the cotton so it is almost 70% in favor of manmade, 30% cotton whereas the Indian situation is reverse of that we 30% MMS, 70% cotton. We are finding even for the Indian brands or outside whoever are buying 100% cotton I think definitely improvement or there is definitely demand for these blended yarns whether it is mixed with the viscous based or it is mixed with the polyester based. So definitely we have geared up ourselves for the demand for the blend increases. On the spinning side we do not have any issues and we have created those capacities and depending upon because the spindles are almost same, it is formation changes in the preparatory which are required to do the change. So to that extent at Vardhman there is no challenge to us and we can increase whatever is the blended capacity which comes in or even 100% synthetic manmade fibers are concerned on the spinning side. On the fabric side also I think we are we are definitely improving already have a good experience of blended as well as the manmade fiber production so as far as the blended fabric is concerned, not much of a challenge but on 100% manmade definitely there are some companies, some technologies which specialize on the manmade side. So since as of now there is not really much of demand, but at the same time going forward there could be a possibility. So we started evaluating those difference where in case we have to look at 100% manmade based fabrics how do we go on that? So we are studying it from the revaluation and maybe as the demand grows all studies should be completed. Our experiment should be okay and maybe by the time we find the actual demand start coming in, we will definitely add those equipments which can help us in processing the manmade based fabrics more efficiently. We can do it today also on the cotton line. There is absolutely no concern or issue, but I think going forward if 100% manmade increases, we can be equipped ourselves. There is no really a very big time required for the same so to that extent we have already starting working in evaluating those technologies.

Rushabh Shah: The second question is in the business of spinning and fabric manufacturing besides utilization of facilities and procurement of cotton, what are the key focus areas for the senior management?

Neeraj Jain: I mean of course you mentioned that the first focus was how to utilize the full capacity. The moment you start utilizing full capacity your cost starts coming down. I think we focus as more and more brands are coming to India, people are talking about China plus one so all these brands which comes in, they require a very different service level where they will be requiring different kinds of fabrics and they will be definitely requiring more mix of manmade based products also. So getting to all those change management something they require, all the kind of special orders they require, all the sustainability information and data they require because all these brands which comes to India will definitely start looking at better managed company for them to go to very, very small companies for every product it would not be possible so both on the fabric side as well as on the spinning side, they are finding whichever brands wants to come, they want to look at one or two sources only where they can depend more on that. Once they start coming in, their requirement of sustainability, equality, different products, different service lines, it is a different ball game altogether for every brand. I think as of now the entire energy is going in whenever these customers are coming in how do we cater to them, how to we understand them, how do we create business model with them. We have to start supplying them products because a lot of these products are today being imported from China. China has manmade products, they are on the blended based products and those are the challenges where the organization is looking at and once these brands are here for longer period of time I am sure this will give us lot of opportunity for growth as well.

Rushabh Shah: Sir my last question is, we say that we are the client centric company. What does it mean and how are we different from other companies in the market?

Neeraj Jain: I am sure today everyone has to be a client or a customer related organization, customer centric organization. The only point is there whatever service lines are required, whatever the customer needs, customer demand, how fast can we meet them first hand right. So many times the customer requirement I want products in these many number of days or some there are some urgency, there are some different products which there have, they are sampling requirement. So there is a cross learning from one plant to the other. Yet these are the products and also for our own development and coping the customers development. I think the amount of focus being given in Vardhman on the customer related issues, I am not saying the others would not be giving but definitely we feel we definitely give lot of time and energy to that. Second is recognize the customer requirement so there are lots of companies where they have a policy of selling for one month only or maybe on a deal to deal basis. We are open some customer want season pricing, some customers want to deal to deal basis some customers want a three month pricing some customers want whatever model they require we are trying to fit it into our system, whether for yarn for fabric so many customer will say I will not change the produce pricing during the season. So you give me a six month pricing now some of my customers ask me even for yarn nine months pricing so whatever is their requirement which is fitting into their business model, we are trying to look at that we should upgrade and we should be in a position to take that risk and give that product to the customer so that we can fit into that. Third is the customer should not suffer maybe because the quality for example, the quality of cotton has been very bad two years back but it was our decision that we will not let the customer suffer on account of quality. So whatever was the cost we incur that because we find it may be a loss for a year, but if you lose customer confidence, probably you will lose them forever. So at Vardhman we have always been looking at the customer should not suffer. They should be in a position to get what they require and to that extent whatever internal systems, processes or cost is required if we are not in a position to give and neutralize that, we should be in a position to gear that so that the customer continues to remain with Vardhman.

Rushabh Shah: Okay Sir thank you. Thank you so much for your detailed reply.

Moderator: Thank you. Next question comes from the line of Resham Jain with DSP Asset Managers. Please go ahead.

Resham Jain: Hi Sir good evening. Thanks for giving a clear update on the sector, so I have a couple of questions. The first one is just with respect to let us say upcoming quarters, first half has been single digit margin overall and I presume yarn would have been significantly lower while fabric would be double digit but how do you see based on your current order book and the current cotton in hand margins to behave let us say in near term?

Neeraj Jain: So at least for the current quarter going by the today's situation, I do not think there is likely to be any major change from what we have seen in the first two quarters. Most of the yarn orders today are not beyond one and half months or two months. So I think depending upon how the prices goes, how the cotton goes, we will have to wait for the fourth quarter number. But going by the current situation, the third quarter is likely to be aligned or in line with the second quarter.

Resham Jain: Okay and in terms of margin, how are the margins different between yarn and fabric right now?

Neeraj Jain: So what we mentioned that the yarn will be significantly lower in a single digit and fabric will be med double digits that is where we are.

Resham Jain: Okay and in terms of the situation, you mentioned about the inventory situation at the retailer level, but generally mills used to keep two to three months of inventory earlier pre COVID and all are you seeing that situation coming back because most of the mills are now keeping yarn for a very less period so is this the new normal?

Neeraj Jain: No the yarn stock with the mills even pre COVID the norm has always been less than one month so in between these yarn stocks increased because the spinners were not in a position to sell otherwise the norm has always been less than one month and even that continues. So if mills are not in position to sell, they may increase it temporarily but effectively at the end of the day they are always looking at inventory to manage within one month maximum.

Resham Jain: Okay and Sir generally you have been quite confident about scenario improving over medium to long term and obviously some of our investments we have deferred given the uncertainty in the situation right now and obviously companies which are strong in terms of balance sheet would typically take advantage of these low cycles to either put up capacity or to maybe acquire some companies how are you thinking about it given that your medium to long term kind of expectation is there in terms of improvement?

Neeraj Jain: The way the situation looks to us. One whatever is the demand happening in the worldwide, it is less so this is not really giving us big concern because everyone is in the same boat. It is a matter of time. Interest rates will come down, things will be alright and whosoever is an efficient player, they will survive this period. Some of the weaker players may go out of the business and all good companies will start making good money once this situation is normalized. It may take three months more, it may take six months, nine months, 12 months. So that is really not a big concern to us as of now and we are very confident as the things will start improving, we will also start working well. So there is no issue to that extent. The only concern we as an organization or as industry have as of now, we have an import duty on raw materials in India. In case the Indian raw material continues to be on a higher side because of their duty component then whether the India will be in a position to really be viable on the spinning side that is nothing to do with the world markets or the demands. That is something to do with India itself, because we are not the only supplier. India is not the only supplier so suppose our cotton is expensive there will be Pakistanis, Vietnamese or Indonesians, will they not get the chance to create capacity and sell in the export market if our raw material is expensive. That is one larger concern where we have to look at as a country how are we competitive which should be in comparison to the world markets. So that is the second point we have but having said that, I still find there will be lots of opportunities for the Indians spinners also so to that extent, now there are two choices available. One that we keep expanding the capacities, but suppose tomorrow whatever I have mentioned if that does not get resolved. So to that extent I think the spinning margins will always be concern or a question mark. So the second part is that why not to create some infrastructure or some capability, some debottlenecking where once these kind of a brand business comes in, you are in a position to cater to that and maybe you reduce the basic product. I think Vardhman strategy is more on the modernization or a debottlenecking side as of now and we are trying to look at in case we can create those capabilities going forward probably whenever the opportunity comes in we should take advantage of that rather than only expanding the capacity and all our thought process as of now are going into that. Just to give you an idea normally we have a normal modernization in the spinning business, about 100 Crores, 140 Crores a year, but I am sure this year going by the situation or the opportunities we are looking at, we are creating capabilities where we have increased or enhanced our modernization plans and we might look at it instead of 150 we might spend 300 Crores on the modernization for this year, maybe a similar amount in the next year. So that we create those capabilities if those opportunities come in, we encash that with a better margin rather than just creating a top line numbers only.

Resham Jain: Okay understood and Sir last one is on capex this year what are the plans. You mentioned 300 Crores for modernization, but is there any other capex other than that?

Neeraj Jain: There are some small projects within spinning which is being considered under evaluation and I hope once if we are in a position to start implementing that it could be maybe another 100, 150 or 200 Crores, but not really any very very big project as of now. So I feel the typical capex for the spinning maybe about 300, 350 Crores because even if we start taking some project this year, the expenditure will not be there and maybe another about 100 odd Crores for the fabric business so the totality could be 350, 400 Crores.

Resham Jain: Okay nothing on renewable power in terms of capex.

Rajeev Thapar: Actually in case of Vardhman Textiles we have already entered into an agreement with Renew Power Company for supply of solar and wind power to our MP unit which is spinning mill so partial power will be supplied through this project and implementation of the same is expected in the next 15 to 18 months. So that is already tied up project and otherwise also we are exploring the opportunities to expand the solar and wind power where we can see that our renewal power composition may be improved within the overall energy consumption in the company.

Neeraj Jain: The first part which Rajeev mentioned it is through the SPV where our contribution will be very less so in terms of our capex, it may not be directly into our company, but it will be by SPV so it may not be appearing directly into our books because we will be holding only 26% equity in that company. We are considering some other projects. We are yet to take a final view whether that happens by way of SPV or it is a direct investment in the company. So all those options are there, but definitely we are evaluating seriously to create a bigger capacity which I am sure next maybe two, three months we should be in a position to take a final view on that.

Resham Jain: Okay great Sir. Thank you and all the best.

Moderator: Thank you. Next question comes from the line of Avnish Chandra with Smith. Please go ahead.

Avnish Chandra: Thank you very much for this opportunity. Sir in the initial remark you have touched upon all the points very briefly, but still continuing the discussion on the margins that if I look at your 10 years performance or even five year performance and even I exclude 24% while a margin and give 20% margin still even bad ugly whatever may be the situation we used to do 13-14% all the time so last four quarter performance was way below. So is there any structural change you are seeing and that is the reason we are not even able to make 12-13% because that was the norm even in the bad years of 10 years. So looking at such a long data and hitting 9% below margin still does not add so any structural change you are really seeing in the market for the margin perspective?

Neeraj Jain: No. There is no structural change at all. This is only since the demand is not there because of very high inflation in US and Europe, where the priorities have changed as of now. Gas prices are very very high. Those are the issues and concerns, interest rates who have see interest rates of 5.5% in US in last 20 years. Nobody has seen that. So I think those are the issues and concerns where this concerns are started coming in. I think now most of the time we are hearing or we feel that the interest rate increase may not happen in USA or maybe there could be one or two tranches which can happen and after that once the inflation is under control, their interest rates starts coming down, gas prices should normalize so by that time I think the thing will change. But as of now, since the problems are much bigger over there or are very different over there, which are the biggest consumption centers in the world so that is where these issues are coming in. The overall demand of textile product is less and if the demand is less to that extent, I do not think anyone will be in position to make money because it is not only Vardhaman or India, most part of the textile industry in the entire world is passing through the same time.

Avnish Chandra: Okay understood. So there is no issue in this structure it is just a current situation and Sir one bookkeeping thing, how much cotton in entry currently we are having.

Neeraj Jain: So the India cotton season ends on 30th of September where anyone or everyone in the system will have a bare minimum quantity. So maybe because the season ends and the new season starts in so we also are in a similar situation where it is the change of the season and I think typical inventory may not be more than 30-40 days in the factory as of now. Of course we started buying as the new arrivals have started coming in and maybe next two, three months we should be in a position to build it up.

Avnish Chandra: Okay and Sir one last thing, continuing the discussion of modernization you have talked about. So we are not going to focus on higher tonnage rather than your focus will be on product mix because when you say modernization, it is not increasing the output but change the product profile is that correct?

Neeraj Jain: So there are a couple of things in the modernization which we look at. One is the product profile change, two, sometimes because of the higher speeds, some of the machinery will be in position to give you a better output also, three, many a times there is one bottleneck machine because of which you cannot increase the overall production so if you are in a position to improve upon that the overall production can improve and maybe there are couple of modernization which are directly linked with the pay backs in terms of the improvement or consumption improvement in the electricity or compressed air etc., so there maybe some of the modernization happens because you require to be better in terms of safety etc. So there are different parameters to look at that and when I say the total modernization, all these are a part of that and depending upon the opportunity, we will keep taking those things.

Avnish Chandra: Okay but as such yet no plan to increase the capacity or whatever 12 lakh capacity.

Neeraj Jain: Not in a bigger way in any case as of now.

Avnish Chandra: Okay Sir. Thank you very much. All the best.

Moderator: Thank you. Next question comes from the line of Prerna Jhunjhunwala with Elara Capital. Please go ahead.

Prerna Jhunjhunwala: Thank you for the opportunity. I just wanted to understand you were holding lesser quantity of cotton at the end of last year and there was a lot of volatility of cotton prices in the last three to four months given your balance sheet, you would have procured cotton at lower prices. Then what restricts little better margin than last quarter? I just wanted to understand from that perspective.

Neeraj Jain: The cotton prices have started coming down in last two to three weeks only because before that the cotton prices were in the range of Rs. 62, 63, 64,000 a candy only. It is only last 2-3 weeks where the prices are coming down to Rs. 57, 58,000 a candy and again we have just started buying because still the arrival is only 100,000 bales a day. The overall consumption in India is also about 80, 85,000 bales so the best possibility for the mills to add is only about 15 to 18,000 bales if everyone is buying on a one day basis, maybe some of the spinners may not be buying so some other mills can actually build up some more inventory. So it is only the starting of the season. The prices have come down only now and also whatever the prices drop happen in India, I think the yarn prices for the last six months are continuously going down only. So even if the cotton prices comes down in India because the New York future has come down, so the overall yarn prices are also reducing. So the possibility of margin improvement even with the lower cotton prices is not looking like it as of now.

Prerna Jhunjhunwala: With increase in fabric capacity utilization, we should see some better margins?

Neeraj Jain: Fabric yes, the spinning is still a significant part of the company, so unless the spinning improves, the overall margins may not improve significantly.

Prerna Jhunjhunwala: Okay so Sir what should be the sustainable margin in the spinning industry given that import duty does not go away on cotton for a longer time and do we continue to report such weak margins because that is one of the main hindrances for a better operational performance?

Neeraj Jain: No, there are three factors to this. One is import duty that is only one of these factors. So if you look at today's cotton prices, international and today Indian prices, there is no disadvantage to the Indian spinner as of now even if there is an import duty so that is not impacting as of now. The impact today is more coming from the lesser demand, unless the demand improves and that demand will definitely improve New York future also and in case New York future is at 85-90 cents, then the Indian concerns will not be there of MSV. I think all three things are related purely the import duty on cotton today is not hurting us. It is demand which is hurting us the most as of now and whenever that improves, I am sure the demand improves the cotton prices internationally will also improve and once that happens, the Indian prices are also aligned to that so to that extent, I think there is no disadvantage. So it is very difficult to say it is only because of the import duty, the prices of cotton in India is higher and the numbers are not sustainable, no. Today the biggest concern is coming from the demand side.

Prerna Jhunjhunwala: Okay and if I want to understand a longer term picture for Vardhman from three years perspective how should we look at this company from growth or margin perspective from a three to five year perspective, I am trying to understand.

Neeraj Jain: We have lots of plans which we are prepared but at the same time we are a very very conservative company and we are always looking at that whatever we have we should be in a position to sustain it, pass through, all kind of difficult times successfully. Going by this kind of situation now let us look at another situation the MSP in India Rs.7020 as of now which is equivalent to Rs.57,000 per candy which is equivalent to 86-87 cents of cotton tomorrow New York future goes down to 70 cents our cotton will not come down to below that. We will not be in a position to import because of the import duty so which means will be on a very very higher side so our concerns and questions are only that unless there is a clarity because if the import duty is not there then there is no issue. We will also import at lower prices but we cannot import because there is a duty. We cannot buy in India at lower prices because there is MSP so whether in these conditions one should expand in a big way so better to wait so better to wait for a year or two till the time we get a clarity on the thought process what the thought process uh in terms of the economics of this industry and once we are clear that whatever plans we have and implementing that will not take us much of a time it is more of a clarity required on as a country our competitiveness that is a debate we are having so to that extent we are we do not intend to really spend huge amount and creating a trouble for company at a later stage or else we get really a very nice plant at a dirt cheap price so where you are in a position to take risk so there is nothing as of non cost but if something like that comes in we take a call on that.

Prerna Jhunjhunwala: Understood Sir. Sir what are the plans in fabric business given that we have crossed 80% utilization and the demand in woven fabric is improving now.

Neeraj Jain: So fabric is the first time where we have started utilizing at least not even 80% we are crossing even 90%, 95% also I will say. The first time since this line was implemented just before we are in a position to utilize our 100% or most of the capacity want to sustain it for a couple of months and once we are in a position to see the sustainability definitely we look at expanding that business or maybe adding something over there rather on a manmade side or something like this so I am sure rather than the spinning I think it may look at an opportunity where something could be coming in where maybe we will wait for next couple of months so whether this demand is sustainable or not and we will take a fresh view after.

Prerna Jhunjhunwala: Okay understood Sir. Thank you Sir and the all the best.

Moderator: Thank you. Next question comes from the line of Rahul Soni with ICICI Bank Limited. Please go ahead.

Rahul Soni: Hello. Yes thanks for giving me the opportunity. Sir I would request you to throw some light on the overall utilization level for the spinning industry and also if you can provide some insight on the utilization level at the SME level.

Neeraj Jain: So our estimate and there is no industry related data which is available, but we keep doing surveys, we keep talking to our vendors, we keep talking to the various customers of the different stakeholders in the industry. Our feeling is on the spinning side, it is almost 90% spinning utilization is as of now there but having said that, whosoever is a vulnerable player especially the SME, the utilizations have started coming down. There are lots of companies which have started stopping on a Sunday or maybe the partial capacity 10, 15, 20% has been reduced so most of the good managed companies, large one they are running 100% utilization and the SMEs or the more vulnerable or financial weak players the utilization will be surely much more so we estimate as of now the spinning utilization could be in the range of maybe about 85 to 90% in India.

Rahul Soni: On overall basis.

Neeraj Jain: Yes.

Rahul Soni: Okay Sir second question on your modernization, so will there be any impact on the margins or post the modernization of the plants.

Neeraj Jain: Immediately no, it is only you are creating the capabilities so if they differentiated or better product from them so as I mentioned again, there are some modernization which is happening only because of the quality plant. So the new machines are coming with the better technology and if you want to continue your preference from the customer side, you might have to change those things even if the profitability is not there. Our modernization includes the debottlenecking, the modernization includes where you have a direct payback. The modernization includes where you have a safety issue. The modernization also includes where you have a preference from the customer so all these four, five factors are considered where we are spending money so that even after 56, 57 years old company customers should not have a disadvantage of working with someone whose technology is not to demand.

Rahul Soni: Sir one last question. Sir what are the factors which affect the spread between the cotton and cotton yarn apart from those up down in the cotton prices?

Neeraj Jain: No only demand and supply. The yarn demand is good the spread will improve or vice versa. Only and only demand supply nothing more than that.

Rahul Soni: Is there any range which is considered healthy for the spinning industry?

Neeraj Jain: So the industry has always been talking of healthy margins at $1 spread which as of now most of the industry is working with 50 cents to 70 cents spread.

Rahul Soni: Okay Sir thank you.

Moderator: Thank you. Next question comes from the line of Amit Khetan with Laburnum Capital. Please go ahead.

Amit Khetan: Hi good evening and thank you for the opportunity. Sir if you could just share what was the realized cotton yarn spread for us for the last quarter and where is it currently?

Neeraj Jain: So I can give you the purchase number it will not be more than 50 to 60 cents and the current spread is also like the same.

Amit Khetan: Is my understanding correct that just getting back to the path of normalized spreads of 90 to 100 cents that is just a matter of demand and nothing else?

Neeraj Jain: Correct.

Amit Khetan: Okay and you talked about the industry utilization India at 85 to 90%, would that be a similar utilization for global yarn industry?

Neeraj Jain: Almost same.

Amit Khetan: Okay alright. And lastly is my understanding correct that the import duty is an issue for the industry only when the global cotton prices are below the MSP?

Neeraj Jain: Not really. That is surely an issue when it happens but let us look at the last year, the last year cotton prices international was not low than the India, but the entire chain came to know the import cannot be done and the overall crop was brought in such a way, I mean generally if you look at the Indian cotton season, the crop will start somewhere in October and by March the 90% crop will be over. But since the entire chain understood that the import cannot happen, so they calibrated the entire arrival of cotton and the old cotton kept coming till September against February or March as the farmer was bringing in only what is required on a daily basis, so they never allowed the mills to increase the stock and the prices kept remaining very very high, so it is not only when the New York future comes down, but under normal circumstances once you know the crop is less or you know that we can calibrate the cotton arrival so that mills could not make the stock so that issue is also there. Tomorrow if the situation comes in where our crop comes down to let us say 295 lake bales our consumption is 310 so irrespective of where the New York future is will not be in a position to run the mills. So how will we work on this.

Moderator: Next question comes from the line of Sarath Kumar with Value Research. Please go ahead.

Sarath Kumar: Okay so thanks for providing this opportunity. Most of my questions have already been answered, but I have a question more related on the strategical level so if you're looking at the cotton prices and the demand supply scenarios and the impact that on the margins what strategically is the company is trying to do so that they can either safeguard itself from this volatile situation with new product mix or more market development scenario.

Neeraj Jain: So it is not only that what we are thinking that what should we do in terms of product mix is basically a demand and supply. And I feel as the cotton prices keeps going up in the markets, the more and more brands as I have mentioned earlier also will keep moving to the blended yarns. And we are also looking at very carefully wherever we are finding that this is a segment where the demand is increasing or improving we are creating those infrastructure, those capabilities and we are just moving our product mix to match so that we are not lagging behind anywhere. So all these modernization, debottlenecking I am sharing is also part of that where we have to keep investing so that whatever opportunity looks like in the product makes changes. We are in a position to gear up ourselves.

Moderator: Thank you. Next question comes from the line of Anik Mitra with Finartha. Please go ahead.

Anik Mitra: Good evening Sir. My question is as you mentioned that CAI has given a guideline regarding lower cotton yield so in case cotton yield remains on the lower side and considering import restriction, cotton prices may go up and in case Indian cotton prices further goes up and international cotton prices remains at the same level, so again the spread between India cotton and international cotton may further expand. So what is your outlook on this regard?

Neeraj Jain: As I mentioned, we still feel because the different industries have done the different surveys and we still feel the crop is not less than 320 lakh bales as of now, which should be sufficient to take care of us. I do not know the basis how they have come to this figure of 295 lakh bales so the Ministry of Agriculture does their own service and their report is likely to come maybe in next two weeks or so. So I think that is a much more authentic figures where they take the ground realities and what is happening on the crop side. Let us wait for that and look at what happens but in any case if the crop is less and the import restrictions are not reduced, I mean the similar situation had happened two years also back and at that stage our crop was less. At that stage the Government of India allowed the import duty free import also for a period of three months or so. So maybe the government has to take a view once they know that the crop size is less and consumption is higher, imports cannot happen, they will have to take a view and they may allow which they did two years back. So we will have to only request the government that if the crop is less, consumptions are higher so this is a situation they will have to decide what they want to do with industry.

Moderator: Thank you. Next question comes from the line of Amit Kumar from Determined Investment. Please go ahead.

Amit Kumar: Yes thank you. Sir just one question you talked quite a bit in terms of weak demand, so one of the opportunities that opened up for us is the UAE and Australia, FTAS essentially. So any thoughts on that, I mean is there possibility of these markets becoming a bigger sort of consumer for Indian yarn and fabrics specifically with respect to the company as well, any sort of agreements that you are sort of seeing on the back of these FTAS.

Neeraj Jain: All these FTAS which are being done definitely it is a big support to the country but having said that, most of these agreements whether let us say Australia, they will be buying only the garment so to that extent India has to gear up for the garmenting for the home textile and those products because these guys are not going to do the garmenting in Australia. So for all these spinners in India, it will be an indirect demand where if the increase happens on the garmenting side on home textile, we are in a position to supply yarn to the Indian counterparts who will be in turn exporting to these countries. But all these advantages will come only in the medium term because once these FDAS happen all these companies have to work with their own supply chain arrangement with India. They will have to look at the quality products. They will have look at the entire trust system which they want to create or the ecosystem they want to create. So medium term all these FDAS are a big advantage but if you are talking about immediate something will happen, no because these guys will keep buying from where they are buying. They start looking at one by one product where they will come to India. They look at the quality. They look at the logistics. They look at the supply chain arrangement and slowly if things goes well they will keep building those capacities in India. Suddenly if something will happen in six months to one year time, no. I do not think that is likely to happen because even if there is an opportunity the customer would not change immediately unless they have comfort of buying from India.

Moderator: Thank you. Due to time constraints, we have reached the end of question and answer session. I would now like to hand the conference over to Neeraj Jain for closing comments.

Neeraj Jain: So I think as I mentioned of course there are issues, challenges which we have explained and I am sure the entire industry is passing through the same. Having said that whatever internally are the opportunities in terms of improving efficiencies, reducing cost, finding opportunities, finding new customers I think the organization is really, really working hard. And for us the definite one advantage is that our weaving division has started doing well which will give us some support in this kind of a time to pass through this difficult time. Of course spinning being the largest business we have to look at how it improves and maybe it is a matter of time one things start improving. In the meantime as I mentioned earlier also that whatever are the opportunities are possible, opportunities in terms of debottlenecking or product mix changes or the machinery improvements or the customer delight, we are working on that also. So that even if by the time the good period comes in we should be in a position to take advantage of that rather at that stage also we are not in position to supply to them, so thank you very much to all for you for showing patience to us in this kind of a difficult time. But in terms of our financials, management, thought process strategy and working on the different strategies the entire management is working really, really day in and day out to see how we pass through this difficult time. And I am sure the good time will also be available very soon so thanks for being a part of our call and anyone has got anything which is left because of the time constraint today our investor desk could be contacted where we can fix up specific call where we can reply. So thank you very much to all of you.

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