Vardhman
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VARDHMAN TEXTILES LIMITED

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SUB: TRANSCRIPT OF EARNINGS CONFERENCE CALL OF VARDHMAN TEXTILES LIMITED – Q3 FY2024

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 25th January, 2024 to discuss Q3 FY2024 results.

Kindly take the same on record.

Thanking you,

Yours faithfully,
FOR VARDHMAN TEXTILES LIMITED

Sanjay Gupta

(SANJAY GUPTA)
COMPANY SECRETARY

“Vardhman Textiles Limited

3Q FY '24 Post Results Earnings Conference Call”

January 25, 2024

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

Moderator: Ladies and gentlemen, good day, and welcome to the Vardhman Textiles 3Q FY '24 Post Results Earnings Conference Call, hosted by Batlivala & Karani Securities of 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

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

Archit Joshi: Thank you. Good evening, and welcome to all participants on the 3Q FY '24 earnings conference call of Vardhman Textiles. I welcome you all on behalf of B&K Securities. We thank the management for the opportunity to host this call. We have with us today from the management, Mr. Neeraj Jain; [Vice] Managing Director, Mr. Sushil Jhamb; Director for Raw Materials, Sir Rajeev Thapar; Chief Financial Officer; Mr. Mukesh Bansal, Head of Fabric Marketing; 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 Vardhman Textiles for his opening remarks, post which we can have a round for a question-and-answer session. Over to you, sir. Thank you.

Neeraj Jain: Thank you, Archit. Good afternoon, everyone. The results are already announced. There is some improvement in the results, which we can discuss in a couple of minutes. But primarily, the challenge of textile continues to be there. Of course, there is some improvement happening in demand -- on the demand side.

But at the same time, the overall demand is still much less, the capacity utilization across the globe is much less on the spinning side and even in India, even as of now, the estimated capacity utilization on the spinning side is only around 75% to 80% against the normal utilization of 90% plus.

The second business, on the woven fabric side, things are better. And as of now, the capacity utilization not only for us, but for the other also is definitely far better compared to what it used to be. And that's the reason there is some improvement happened on the overall -- on the fabric side, which is helping the overall improvement of the company side as well.

In this period, on the demand side, I think the export continues to be from India, almost about 100 and 105 million kg per month, which is the normal exports from India. The domestic demand seems to be still not to be marked, which is required or desired. As a result of that, the overall pressure is still there on the margin side.

The improvement on the results have happened, but not because of the price increases happen on the spinning side, but basically for the 2 reasons; One, some improvement on the capacity utilization of value-added products like Melanges or coarse spun etcetera; Two, the reduction on the raw material prices.

So, on the basic products, cotton yarn, PC, I don't think there's an improvement on the yarn that has happened and whatever improvement we have seen is only on account of the reduction in the raw material price.

Starting with the cotton prices. The cotton prices this year -- I mean, we started the new season starting somewhere in the month of October, and the prices started coming low. And as of now, the prices are ranging almost about INR55,000 of [candy] in India, which is equivalent to $0.84 per pound. The newer future as of now is almost close to about $0.85, which was about $0.80 a week back.

So even if you look at a $0.80 mark, which was there for a long period of time, the American cotton availability in India would be on a 1,500 basis points, which in close to about $0.95. And against that, the Indian cotton is $0.84, $0.85 as of now. So definitely, the disadvantage of prices of Indian cotton, which happened continuously for the last 2 years is not there as of now, rather it's a favourable and it is one of the lowest cost cotton as of now in the world.

The season started and we have also started buying. And since we started utilizing the lower cost cotton, definitely there was some despite on the raw material costs, which has helped us to improve a little bit on the margin side.

As I mentioned, the cotton yarn prices continues to be in the range of about $3 as of now, and no increase at all in these prices, the domestic prices, which is almost comparable in equilibrium is almost about INR250 a kg. And again, since the export prices have not increased the prices in the domestic market also does not increase.

The other products, definitely, as we added or as we started utilizing the capacity inflation on some value-added products. So, we came out of lots of loss-making products like 100% viscose or maybe 100% poly, which we were making earlier to run the capacity. And to that extent there definitely an improvement happened on the margins.

The gross margins on a 30-point basis continues to be almost in the range of about $0.50, $0.55 only, and the normalized margin is always in the range of at least $0.85 to $0.90. So, the delta available as of now to the spinner is not more than $0.50, $0.55 as of now. And I think this is a range we are seeing almost for the last now 1 year, where no improvement on the delta is happening.

And I think on the demand side, if you look at all the 4 segments, as I mentioned last time also, the home textile was the first one to improve, they're running almost full capacity utilization and the utilization over there are better as of that, all the home textile companies margins and the overall working is quite good.

The second segment, which started improving was the woven segment. And if you look at last couple of months, even our capacity utilization, we are running almost 100% utilization and because the demand was better and the company also worked with the all the brands, all the customers very aggressively to send the products. And as a result of that, the margins are better because of the full capacity utilization started happening.

The third segment, which is the denim, I think the worst is over in the denim also and the capacity utilization, which had come down to about 50% of which was about 50% 3, 4 months back, today, I think, would be in the range of about 70% in India. So, to some extent, they are also, I think, the worst is over and both the denim demand for India as well as outside, it is improved.

Knitting is still somewhat under pressure, but I think definitely on the knitting side also, the things are improving and the utilization on the knitting is also has improved in this period. We are sure the way things are moving, if this demand continues, probably we'll start looking at the better times very soon, hopefully as the segment by segment, the demand is improving.

And once we are -- we see a little more demand on any of these segments, especially if it happens on the denim or on the knitting side, I'm sure whatever capacity -- extra capacity the spinning has that will get consumed and the normalized margins will start to happen.

Before we talk on the expansion --- in the meantime, we have also announced the extension of Melange business. So, we have a plant in Punjab, where we are producing the 100% cotton melange and the polyester cotton melanges. So, we are adding some capacity over there. So total capital outlays in the range of about INR200-plus crores, which will take -- which will give us additional production of 8, 9 tons per day and this is one business which is clearly related with the fashion and most of our customers are the direct brands, where I think the business is good. Margins are good. So, we are expanding this business as well.

So, this is the first expansion we have announced in the last 1.5 years after the crisis started happening. And I'm hopeful if these things continue to improve, we might look at revising either the earlier projects or taking us something new, but I think it's too early for me to announce it as of now.

So, before we move on to the other things, I'll request Mukesh to give a brief on the fabric side. So then after that, we can discuss on the remaining part of this.

Mukesh Bansal: Thank you, Neeraj ji, and good afternoon, everyone. As far as fabric business is concerned, Q3 and Q4 for Indian textiles in any way better than Q1 and Q2 because we have a lot of demand for the spring summer season, which predominantly is cotton-based clothing. That is how it has behaved this year as well. And to some extent, this quarter, this time, this season was better than the corresponding one on account of better demand from especially US and the Japan market. In the U.S. market and that so in the Japan and also the Europe, people were struggling with the higher inventories and inflation and fear of recession.

As we shared in the last call also, the inventory level with the brands have started coming down to normal level. If we track the numbers of some high-ticket brands in the U.S., their inventory had gone up in the range of from 70 days to 90 days, which is now coming down to the range of 50 to 60 days, which seems to be a normal level for them. So that is why the demand has started coming back from the time because in any case they need clothing for the Indian fashion cycle.

And second phenomena that we are seeing now because of disturbance in the Suez Canal, Red Sea area, the transit time have become longer. Now the brands are asking for early delivery for all the order that they have placed before. They're asking for 2 weeks early delivery. So, it is kind of the total amount of order remains the same, but it is a little pull forward for the order that they have already placed. So that has helped Indian woven textile segment to a great extent. And as Neeraj ji mentioned that it changed that from as far as demand is concerned, the worst seems to be over, and we are likely to see better demand in the coming quarters.

Similarly, Japan was -- demand from Japan was quiet from quite a long time. After the COVID, the restrictions were longer. And anyway, there were -- even though the government had lifted the restriction, but people themselves were very cautious about going to the malls, going to the shops. That has -- so the brands were buying less. They were -- may be they were selling, but the buying was lower than what they were selling.

So there also the impact of inventory has reduced, and they are coming back with the demand. Similar to the, as I mentioned before, the U.S. also, if you see that the American import of textiles is 15% to 17% lower, but if you look at America's -- macro data, their retail sales as compared to corresponding period is 5% to 6% higher. So that shows that they have been reducing the inventory, and they have the curtailing the demand, which is now coming back.

That's all from my side, Neeraj ji.

Neeraj Jain: Yes, we can start the Q&A. The remaining thing we can discuss along.

Moderator: Thank you very much. The first question is from the line of Awanish Chandra from SMIFS. Please go ahead.

Awanish Chandra: Congratulation management team on improved performance. Sir, you did announce some bit of capex for next year. But sir, it is too small. So can we expect a few other announcements during FY '25 because the addition of 22,000 spindle would be very low as compared to our overall capacity.

Neeraj Jain: Yes, I agree with you. It's very small. So, with my purpose of announcing it was only that at least it looks like we are coming back to the normalization, and we have started announcing the capex. And so, because it's all a factor of the profitability and the right margins. And I'm sure as the things improve, definitely, we have a couple of plants on the drawing board. And as we start finding either a good demand or a good profitability, we'll definitely start looking at it and start implementing that.

Awanish Chandra: Okay. And sir, just for clarity purpose, you did announce that INR350 crores capex would be there in FY '24, which was modernization plus maintenance. So that INR350 crores is separate than this INR200 crores announcement?

Neeraj Jain: Yes. That's true.

Awanish Chandra: Okay. And this INR200 crores will come next year?

Neeraj Jain: No, we will be completing it within, I think, calendar year '24.

Awanish Chandra: Okay. And sir, this maintenance capex of like INR350 crores what we are having in FY '24, that will be continued even in the next year.

Neeraj Jain: That's true, that's true. Because the maintenance capex was whenever we are producing things, I think there is always some debottlenecking, which keeps coming both on the spinning side on the fabric side. So, to enhance the production or enhance the capability to produce some specialized products, we have to keep adding some of the technologies. So, this INR350 crores when we say the maintenance capex, it includes the debottlenecking as well.

Awanish Chandra: So that will be continued over an above of new capacity extension?

Neeraj Jain: Correct, that's true.

Awanish Chandra: And sir, you did highlight some bit of factors which will lead to normalization of margins. So today, if you can have some guess, maybe 2, 3 quarters onward, can we reach the 14%, 15%?

Neeraj Jain: No. So, the quarterly numbers, which we have shown, I think the EBITDA margin has already improved to about 14%.

Awanish Chandra: Correct.

Neeraj Jain: It then depends upon when the yarn prices start improving because normally, whenever the downtime comes, I've seen historically, it was almost 2, 3, 4 months and then this thing starts improving. The first time probably we're finding it's more than a year, things have not started improving.

So, it's very difficult for me to say when the yarn prices will start going up because Fabric is running at the full capacity and the margins are also okay. So, I don't think that's really any major possibility for that to improve significantly higher than what we are earning as of now. But spinning, which is, again, another larger business of the company, it can improve only once the yarn price starts improving. Very difficult for me to comment when that will happen.

Awanish Chandra: Okay. And sir, one last question before I stop. Sir, our capacity utilized in all the segment is now near 100%, correct?

Neeraj Jain: Yes.

Moderator: Thank you. The next question is from the line of Riya from Aequitas Investments. Please go ahead.

Riya: Sir I wanted to ask what are the -- how does the freight arrangement -- like are we bearing the freight cost? And what kind of incremental freight costs are you looking at?

Neeraj Jain: So, the all trade negotiations happen on a contract-to-contract on a month-to-month basis. So, there are no long-term contracts with any shipping companies. So, I mean whatever is -- when we are quoting a business at that time, whatever the freight, we generally take that into the costing, but the actual negotiation happens on a contract-to-contract on a month-to-month basis only.

Riya: Okay. So basically, part on the entire freight cost to our customers, is it right?

Neeraj Jain: No, not really. So, the existing business, which is already done. Is the freight cost increase or decrease that has to be borne by the company only.

Riya: And what kind of incremental freight are you looking at currently because of the geopolitical tension?

Neeraj Jain: So, it's only, I think, a couple of markets like Europe or Egypt, where the freight has increased. As of now, the other markets remains almost at the same price. But because the transit time has increased for Egypt and for Europe as of now. Going forward, if the things do not improve and because of the Red Sea, the overall time taken is much higher, the overall availability of the shipping come down, then there would be a definite increase happening across the globe, which has not happened as of now. So, our part of business to Europe and Egypt is miniscule as of now. So, it's not really significant as on today.

Riya: So, for us -- and exports, how much will be U.S.? And could you give us geographical distribution?

Neeraj Jain: On the yarn side, there's hardly anything which goes to the U.S. or to the Europe directly, but these are all the centres. Most of the yarn and fabric would go to the Asian countries where the garmenting would happen and the friendly garment would go to the U.S. or to the Europe.

Riya: And for Fabric?

Neeraj Jain: Fabric also, I think wherever the garment will go, the fabric will go to that side. In U.S. and Europe, they don't do the garmenting. They don't do this action.

Riya: Got it. And in terms of what would be your current export growth in last quarter?

Neeraj Jain: For company or for us?

Riya: For us, for us.

Neeraj Jain: So, we generally do almost 30%, 35% of our manufacturing. We do the exports, and that continues for us. Whatever is our capacity utilization, almost 1/3 goes for the export, both fabric and yarn together.

Riya: Do we see this increasing going forward since domestic demand is little bit sluggish?

Neeraj Jain: No. Again, one is the demand is sluggish or second is the whatever the customer -- because when I'm saying the export, it is a direct export then whatever we are selling to the domestic market, again, a major part of that goes for the export as by way of a garment or by way of the value-added products from India. So, it's not really that the demand is less so we can export more. Wherever we get the opportunity, we keep doing the same. So, it's not any strategy that we have to increase the exports, depending upon the opportunity at the right prices, we take a decision.

Riya: And what would be the yarn -- cotton yarn spread as of now?

Neeraj Jain: $0.55, $0.60.

Riya: $0.55 to $0.60. I think in the peak, it went up 110 or so. What was your breakeven spread?

Neeraj Jain: So generally, for a right margin, we've always said that about $1 should be a good spread. The breakeven would happen in most of the cases in the range of about $0.75 or so.

Riya: $0.75, got it. And for cotton, what is your outlook on the commodity as a whole? Like what is the output like -- raising the output of like 7% to 8% higher this year. So, do we see the raw material prices going down further in the premium as compared to the U.S. cotton going down?

Neeraj Jain: So, it's very difficult to predict what will happen to the New York future and what will be the changes happening there? I can't really comment on that. So, assuming this is a price, $0.85 is the in price in USA, then we have to look at what would be the Indian prices. Indian prices will get determined by two things. One, how much should be the discount from the American cotton, which normally is in range of $0.07 to $0.08 per pound. So as of now, that discount is higher. So as of now, the discount is almost like $0.13, $0.14. So, what is the -- in India, we are also driven by the minimum support price.

So that if the Narma prices goes below INR7,000, then the government is committed to buy the crop from the partner through the Cotton Corporation of India. So CCI already doing those operations. So, possibility of prices going below these prices in India is not possible at all. Because then the CCI can buy the entire cotton. So practically, whatever is the prices ruling in India today, that's what should be the kind of lowest prices.

Riya: So currently, ……………. prices is at INR55,000, if I'm not wrong.

Neeraj Jain: Correct.

Riya: And you think that this would be a fair enough consolidated or sustainable level. It cannot go lower than this?

Neeraj Jain: It can't go lower than that. It can increase depending on -- as I mentioned, because Indian cotton is at a discount today, it can increase, but the possibility of going below this doesn't seem to be there.

Riya: Got it. Thank you. That's it from my side.

Moderator: Thank you. The next question is from the line of Anik Mitra from Finnomics Solution Private Limited. Please go ahead.

Anik Mitra: Good afternoon, sir. Am I audible?

Neeraj Jain: Yes.

Anik Mitra: Congratulations for a good set of numbers, sir. Sir, the yarn price, as you said, it is hovering around INR250 per kg. And sir, cotton spread you mentioned, Indian cotton and yarn spread in the domestic market is around INR60. Is it the right information?

Neeraj Jain: Yes.

Anik Mitra: Okay. Sir, in the international market, Indian cotton and yarn spread is $0.55 to $0.60. Am I correct?

Neeraj Jain: No. Even India also, this is almost $0.60 equivalent only.

Anik Mitra: $0.60, okay. So that is in the domestic market as well as in the international market.

Neeraj Jain: In the export and Indian market, the prices of yarn are almost in equilibrium. There's always a gap of only INR1 or INR2 here and there.

Anik Mitra: Okay. And sir, what is the spread of US cotton and yarn at this point of time?

Neeraj Jain: That's also same. Because normally, whatever is the yarn made out of the US cotton that gets at a premium of $0.15, $0.20 on the yarn side. So, the spread for cotton will also be same. Not in India, because in India we have to pay duty. So, I'm talking of a US cotton someone using outside India, maybe, let's say, from Sri Lanka or in Indonesia, so they will also be having the same spread. India, it is less because we have to pay 10%, 11% duty on imported cotton.

Anik Mitra: Okay. So, in the international market, US cotton and yarn spread, and Indian cotton and yarn spread are same?

Neeraj Jain: Correct.

Anik Mitra: Okay. Great. And sir, what is your EBITDA margin guidance?

Neeraj Jain: So as of now, I'm not in the position to give guidance. For the last couple of quarters, we are not in the position to give any guidance on these numbers because you've seen all these kind of disruptions where the capacity utilizations are not improving and the price of cotton has really, really varied too much. So, for the last couple of quarters, till the time to normalcy, we are not in a position to give any guidance because it could be really, really difficult for me to predict what will happen next quarter.

Anik Mitra: Okay. Sir, your EBITDA margin -- EBITDA has improved up to a certain extent this quarter. So, what actually factored -- like there was some improvement in the gross margin also this quarter. So, sir, like is there any other expenses? Like what is the -- like what made this improvement?

Neeraj Jain: Basically, the two biggest advantages which have come where this has improved. One, the full capacity utilization on the fabric side where definitely the margins -- where all costs are already absorbed. Two, the prices of cotton have come down. So, once we are using the cotton, which is much lesser, or which is at the right price today, so the margins have improved.

Anik Mitra: Okay. And sir, any plan for capacity -- increasing capacity for the facilities which are running at 100% utilization at this point in time?

Neeraj Jain: I think as of now, of course, we are working on various ideas, but we have announced a small capex of INR200 crores yesterday...

Anik Mitra: Okay.

Neeraj Jain: For the remaining, we are still evaluating.

Anik Mitra: Okay. Thank you. That was from my side, sir. Thank you so much. Best of luck.

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

Abhineet Anand: Yes. So, thanks for the opportunity. First, I just wanted to understand this EBITDA margin, 14% that you're talking about, it includes the other income, right?

Neeraj Jain: Yes.

Abhineet Anand: So, what part of other income is a bit operational in nature out of the INR80 crores, INR90 crores that we earn?

Neeraj Jain: It's having two, three components. One is that investment income is there, then forex gains are there. So, these are the main components out of this. And dividend also includes the dividend from group companies which is being received in this quarter.

Abhineet Anand: Okay. Secondly, this INR200 crores capex that we talked about, what is the revenue potential for that, sir?

Neeraj Jain: Generally, in the spending side, I think it's only about 1:1 capital output ratio.

Abhineet Anand: Okay. So INR200-odd crores at 90%, 100% utilization.

Neeraj Jain: Yes.

Abhineet Anand: Sir, one of the other things that we have been investing in our debottlenecking and maintenance, etcetera, over years and annually, we see INR200 crores, INR300 crores investment. Just trying to understand, while we have been investing and we are at global standards. If you can talk from an industry perspective, while we keep talking that India has a large spinning base, is the industry also putting a similar type of money on capex. Otherwise, the number of 50 million spindles that we talk about is actually just a number rather than the output being there, right?

Neeraj Jain: So, if you look at the Indian spinning industry, the total supply of spindles in India in a normal year is in the range of about 2.5 million spindles per year. And out of that, it's generally about 30% or 40% will be the new expansion and -- 50% will be the new expansion, 50% will be the replacement happening. So practically, I think the overall modernization in India will not be happening more than 1 million, 1.25 million spindles a year. That too happened in last seven, eight, nine years only.

So, we try to estimate the overall machine pack of India, as a large number of mills, which are very small in size and having an average spindles of about 20,000, 25,000 spindles only, and it's a pretty large number. I don't think there really major monetization has happened in those machines -- in those factories. So maybe the larger groups or the organized players [inaudible]

Moderator: Sir, I believe that was from the line of the current questioner, Mr. Abhineet Anand. I had to mute his line. So, we'll as of now remove him from the question queue, and we'll ask him to join back in case if he has a question.

The next question is from the line of Mr. Varun Gajaria from Omkara Capital. Please go ahead.

Varun Gajaria: Thank you for the opportunity. So, I just had a question on how is the demand faring in China and Bangladesh market? It seems like there was a wage hike and plus demand was a little slowish in Bangladesh in the last 2 months. How are things looking there? Consequently, there's been a slow...

Neeraj Jain: So, the China demand is definitely on a lower level from the normalized levels. The Bangladesh has been up and on, though some months are good, some months are bad. But the overall demand from the Bangladesh is okay. There's no issue at all. China, definitely, the demand is much lower.

Varun Gajaria: Okay. So, the factories and everything, all issues have been sorted out, right? In Bangladesh?

Neeraj Jain: Sorry. Yes that is sorted out.

Varun Gajaria: Okay. Okay. All those issues are -- sir, due to that and due to the wage hike and everything, has there been any impact on the demand or probably on realization.

Mukesh Bansal: Neerajji may I answer?

Neeraj Jain: Yes, please.

Mukesh Bansal: Yes. So, the wage increase issue is settled between the credit union and the manufacturers union and that got settled about 3 to 4 months back. And the good part is that the many customers in the US and Europe, which are the major markets for them, those customers are taking cognizance of the increased wage cost and it leads to about 2% to 3% increase in the price of the finished product, which customers are accommodating. So that issue more or less is settled.

Varun Gajaria: Okay. So more or less the hike has been passed down right to the customers -- the customers seem comfortable then in this case?

Mukesh Bansal: Yes. So, we are not directly impacted by that, but this is the information that we see from our customers.

Moderator: Thank you. The next question is from the line of Sanak Kumar from Value Research. Please go ahead.

Sanak Kumar: This is Sanak Kumar; can you hear me?

Moderator: Yes, sir. But your voice is sounding a bit echoing, could you please use the handset just in case?

Sanak Kumar Yes. Can you hear me now?

Moderator: Yes.

Sanak Kumar: So, my name is an Sanak Kumar, not Janak Kumar.

Moderator: I'm sorry for that. I'll make the changes, sir.

Sanak Kumar: Thank you so much. Last time in the con call, I asked about the aspect of -- that the business at this moment is growing if the cotton prices go down, and if they go up, the volumes go down or the margins -- and the margins go down. So, what are the plans of the company to have market penetration or market development or product development or any kind of diversification strategy that Vardhman is looking at to expand the existing business?

Neeraj Jain: So, there are two ways we have to look at it. One is a diversification on the customer side. Second is the diversification on the product side. And we are working on both the ideas. So, more and more customers are joining us, more and more brands, we are working with them, so that our overall diversification on the customer side will improve.

At the same time, there are different sections within the spinning as well as within the fabric region, which are working on the various new ideas, new fabrics, new brands. And that's a regular process where we are developing those products, showing it to the customers, showing it to their designers and in collaboration with them, the new products are being developed on a regular basis. It's an ongoing process for years together.

Sanak Kumar: Okay. But there is no announcement as such about you entering a new market or...

Neeraj Jain: No, no, no. Since we're all part and parcel of the existing business is only because sometimes this customer will buy, sometimes not, sometimes A product we will sell, some time B product. So, I don't think that's really that has so significant at any stage that it has to be announced. It's an ongoing process for years, so that we will be continuing for years.

Sanak Kumar: Okay. And the last question is related to technical textiles. So, do you see any traction for the company to enter it on a larger scale?

Neeraj Jain: I mean as of now, frankly, no.

Moderator: The next question is from the line of Naman Jain, who is Individual investor.

Naman Jain: Hi, thanks for the opportunity. Can you hear me?

Moderator: Sir, may we request you to use the handset mode in case if you're using the speaker mode, please?

Naman Jain: All right. Is it better now?

Moderator: Yes.

Naman Jain: Okay, okay. Great. Okay, first of all, yes, congrats for the good results. And we're all aware that no doubt the company has done quite well in last 5, 6 years and 4 generation is going on now. But I look for the macro factors, like I remember in earlier discussions we used to discuss China Plus One thing or competition from Bangladesh or Vietnam. What's the situation now? I mean, is it a risk? Because specifically China, which is on a big term slowdown and the metros are quite bad these days. So, it's still opportunity or a risk for the company? And number two, are we looking for -- I mean on the singular line, are we looking for extra -- exporting if it's another opportunity for us? Thanks.

Neeraj Jain: So, this definitely it looks like an opportunity only if the China Plus continues because if they slow down, they are very strong on the spinning side. They're very strong on the other products also. If the China doesn't do the garmenting, this garmenting would go to some different countries, maybe Vietnam, maybe Sri Lanka, maybe Bangladesh or maybe India and so and so on.

So, as we as a textile product manufacture -- as a textile market of products of both spinning and fabric, we have the opportunity or we have the possibility to sell to those markets. And in case the garmenting happens in India, in any case, it's a great opportunity for all the textile mills in India to supply that material to the Indian garmenters. So, there is definitely an opportunity here.

Moderator: The next question is from the line of Ankit, who is an Investor. Please go ahead.

Ankit: Hello?

Moderator: Yes, sir. You line is audible.

Ankit: Yes. Thank you for taking up my question. I want to understand the value chain of experiments. So how much cotton you required to manufacture yarn, and how much yarn is required to manufacture fabrics, just broad understanding about the value chain?

Neeraj Jain: So generally, the realization for cotton yarn, it's about 70%. So, you have to use 1.4 kg of cotton to produce 1 kg of yarn.

Ankit: Okay.

Neeraj Jain: And from the yarn to fabric, the wastage is in the range of about 7%, 8% only.

Ankit: Okay. If you can give an example of how much is required to manufacture fabric from 1 kg of yarn.

Neeraj Jain: For the -- I mean, generally, the fabric 3 meters is equivalent to 1 kg. So, to produce 3-meter fabric, you require 1.1 kg of yarn.

Ankit: Okay. Thank you so much. And actually, in your opening remarks, so what is the capex yield which you have planned?

Neeraj Jain: We have announced INR220 crores of capex, specifically for an expansion. In addition to that, our normal or maintenance capex is always in the range of about INR300 crores, INR350 crores a year.

Ankit: So how much spindle capacity that will be...

Neeraj Jain: Adding about 15,000 spindles.

Ankit: Okay. And what is the current realization for gray and processed fabric?

Neeraj Jain: Mukesh?

Mukesh Bansal: What do you want?

Ankit: What is the realization -- current realization for gray and processed fabric?

Mukesh Bansal: Realization means price realization?

Ankit: Yes, price realization.

Mukesh Bansal: Yes, we largely sell finished fabric, and finished fabric is about INR180, INR185 per meter. So, our gray selling is very low, and that depends upon what is the product mix at that time. But still, if you want to take an average for the same fabric that we signed as finished, the grade should be in the range of about 100, 110, 115.

Ankit: Okay. And how much is internally consumed or yarn is internally to consume for fabric?

Mukesh Bansal: It's about one-third of the yarn we consume in-house.

Ankit: Okay. One-third of yarn, okay.

Mukesh Bansal: Or little lower, yes.

Ankit: Little lower, okay. Thank you, sir.

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

Nikhil Agrawal: Good evening. And thank you for the opportunity. Sir my question was on the exports, on the export side. You said that there aren't any issues currently because of the Red Sea crisis because we primarily export to Southeast Asian countries and Bangladesh. But they ultimately export to the US and the European countries. So, because of the Red Sea crisis, it might be -- aren't they currently taking a new slowdown in orders, which is ticking down to us as well?

Neeraj Jain: Mukesh, can you answer?

Mukesh Bansal: Yes. So, you want to know that this Red Sea issue, how is that impacting business?

Nikhil Agrawal: Yes.

Mukesh Bansal: So actually, what has happened is that -- because the transit time is now increased, the customers in US and Europe, they are wanting to ex-mill the goods, two weeks in advance.

Nikhil Agrawal: Sorry? I think it's my headphone.

Mukesh Bansal: So, if the -- let us say, if the original planned date for the goods to be shipped was, say, end of February, now they are asking the suppliers to ex-mill the goods by 15th of February. So, they are wanting two weeks advanced delivery.

Nikhil Agrawal: Okay.

Mukesh Bansal: Number one. Number two, for the garment shipments, whether it is from India or from Bangladesh, Normally, the freight cost is borne by the buyer only. So, no impact on the exporters as much -- as far as the garments are concerned.

Nikhil Agrawal: Okay. So ultimately, there's no impact on the business for us at all.

Mukesh Bansal: No, no, no.

Nikhil Agrawal: Okay. Got it. That's it for me. Thank you.

Moderator: Thank you. The next follow-up question is from the line of Vineet Anand from 3P Investments. Please go ahead.

Vineet Anand: Just two data points. I think the employee expense seems to be -- earlier used to be in the range of INR190 crores, INR200 crores, that is like INR225 crores. So, is this the new normal, or is there some extraordinary there?

Neeraj Jain: It's almost new normal. I think if I look at on a nine months to nine days per month basis, increase is around 10% only, so it's a new normal one.

Vineet Anand: Okay. And other expense had some hedging gains, right?

Neeraj Jain: Yes. So, there is some commodity derivatives losses which we had provided in the first six months, so there is a partial reversal of that.

Vineet Anand: Okay. And last was that, this Bangladesh had its revision in the labour cost or something. I mean, is there any material change in the competitiveness of that country with us or it's irrelevant?

Neeraj Jain: With the new agreement they have done, it continues to be lower than us. Their cost has increased, but at the same time, they're still better compared to us on the overall labour cost.

Vineet Anand: **O**kay, sir. Thanks. Those are my questions.

Moderator: Thank you. The next question is from the line of Amit Kumar from Determind Investments. Please go ahead.

Amit Kumar: Yes. just one question almost 1.5 years, a year, 1.5 years back, we had this FTAs with UAE and Australia. So, any sort of impact that we're starting to see from these geographies and our business. Especially, Australia, we then need to understand imports majority of their yarn and fabric in the government for that matter. Any sort of traction coming in from these markets?

Neeraj Jain: There is no government except Australia. So, they only buy the garments only. So frankly, from our business perspective, there is no direct impact because we cannot -- we don't explore the yarn, or we don't explore the fabric in a big way to that country. So -- there's no – because garmenting happens in that country.

Only the -- all these advantages comes to our company only in an indirect way, they start buying more governments or home textile or those kind of things from India or from the other countries, where we supply our material. But directly, there is no impact on us at all.

Amit Kumar: Okay. And anything on the UAE side? Is supposed to be a gateway to middle east, so to speak, but I don't know.

Neeraj Jain: No, no. Again, for us, we are only a textile material manufacturer. So, wherever the garmenting is happening, we'll be selling only to those countries.

Amit Kumar: Okay. Understood. Thank you. That's it from my side.

Moderator: Thank you. The next question is from the line of Resham Jain from DSP Asset Managers. Please go ahead.

Resham Jain: Yes. So just a broader question on the overall -- the capacity which we have and how much incremental revenue can come from that. So, if an assumed cycle to improve, let's say, with a 10% kind of price increase across yarn and fabric, should one assume that your revenue should also overall increase by 10%, given that your capacity utilization is closer to 85%, 90%, or do you have spare capacity to sell more?

Neeraj Jain: No, no. So, I think it will only be price improvements, which can improve the top line. Otherwise, I don't think in terms of capacity utilization...

Resham Jain: So, the Q3 run rate, is that whatever almost peak utilization?

Neeraj Jain: Correct.

Resham Jain: Okay. Sir, the second question is from the overall strategy perspective, if I look at, let's say, next year, given your initial commentary and your colleagues also mentioned about it that we are seeing some green shoots in terms of demand improvement, De-stocking related stuff also is gradually coming down. So, let's assume that next year's cycle is going to improve and you decide to set up a capacity now, how much time will you take to set up capacity, whether it is in spinning or whether it is in fabric?

Neeraj Jain: So, from planning to the commercial production, either on a fabric side or in time, it's generally in the range of about 12 months.

Resham Jain: So, the question, sir, is that, obviously, whenever scenario is not that good. It may not look like one should do capex. But given that there is always cycles. And cycle, if it is going to improve, let's say, next three months, six months, whatever no one knows. And we already have a decent amount of cash generation from the existing business itself.

I'm not including the cash which we are holding. Then how should we think about growth? Because as a company, we are then curtailing our growth because again, there will cycle a year after two years later. So, whenever cycle comes back, we will not be there with our capacity. So how should one think about the overall strategy from the growth perspective?

Neeraj Jain: Resham, your first assumption is correct. And I also agree with you that whenever we are in a position to utilize full capacity, we should start looking at even if the business is not good because it's all cyclical business, one or the other way it will get corrected. So, there's no issue to that extent.

I think this year, this particular time, our major concern comes from the policy in terms of the possibility of import of cotton or not. Because in case we do not -- last year has been a very bad year, where the -- nothing happened by most of the farmers and they could bring the crop in a way where -- they were getting the prices based upon the landed price of cotton, which was including the duty.

This year, there's a reversal of that and these kind of holdings have not happened. So, area where you are not there because if the local prices increases, and you can't import or even a crop failure, I mean those kind of things, then there's a concern. So, I think it's more related with the thought process on the raw material availability at the right prices, unless that's ensured,

I think it could be actually not prudent to going for a very, very big execution. That's our view as of now.

Resham Jain: So, sir, let's say, now given that cash is not a problem with you and if you see -- because we have not done any acquisitions in the past. Is there any acquisition opportunity to utilize cash? Because anyways, you are not doing buybacks and giving large dividends you are just keeping cash. And you explained that in the last call about it, that you will -- this is a safety capital, which is needed, but there is no definition of how much is that safety capital amount being.

So how should one think about -- because ultimately, growth is suffering. I understand there are growth -- there are policy related challenges and which are important things, so how are you thinking about the same?

Neeraj Jain: So, we are very clear that this is an normally which has happened, which has to get corrected. So sooner it happens, it will be better for the entire industry. So, I -- we are hopeful that the government will be looking at it passionately. And definitely, there should be or could be some policy vision to remove this anomaly.

But unless that happens, then I think a bigger capacity would be a bigger issue or a bigger concern going forward. At the same time, I think definitely, I mean, this is purely on the spending side. But when it comes to the fabric, the risk of cotton prices to the proportion of cotton prices to the final product is much less and the impact is also much less.

So definitely, we are looking at some potential possibilities of improving or increasing that business where because the utilized part of the cash we could actually improved our market penetration as well as the capacity. So, there are ideas both on the spending on the fabric side, where we are considering it very actively. Maybe it's a matter of time when we start implementing it, start announcing it.

Resham Jain: Okay. Sir, just a couple of bookkeeping questions. If you can help with the consolidated gross debt and consolidated gross cash? Not stand-alone, consolidated.

Mukesh Bansal: Resham, as of now, we are having long-term debt of about INR1,100 crores on our books. And short-term debts are in the range of INR600, INR700 as of now. Investment side, we are carrying investment of about INR1,100 crores as of now.

Resham Jain: INR1,100 crores, you mentioned, sir? Okay. Sorry, I couldn't hear, but I'll maybe talk separately. Thanks.

Moderator: Thank you. The next follow-up question is from the line of Anik Mitra from Finnomics Solution Private Limited. Please go ahead.

Anik Mitra: Thanks for taking my repeat question. Sir, what is the average life of spindle. Hello? Am I audible? Hello?

Neeraj Jain: Yes, please.

Anik Mitra: What is the average life of spindle?

Bharat Sheth: Spindle?

Anik Mitra: Yes, sir.

Neeraj Jain: So, the spindle can live about 25 years.

Moderator: Excuse me, there has been a bit of disturbance coming from the management line -- from the line of Ms. Poorva Bhatia.

Neeraj Jain: Is it okay now?

Moderator: It is okay, but whenever you're about to speak, the disturbance comes.

Neeraj Jain: So, the average life of a spindle is about 25 years.

Anik Mitra: Sir, you are not audible.

Moderator: Your voice is breaking.

Anik Mitra: Your voice is breaking. Hello?

Poorva Bhatia: Hello?

Anik Mitra: Yes.

Poorva Bhatia: Am I audible?

Anik Mitra: Yes, now it's better.

Poorva Bhatia: It's fine now?

Anik Mitra: It's better now. Okay. So, I was asking life of a spindle, sir, can you please repeat it.

Neeraj Jain: Spindle's life is almost 25 years.

Anik Mitra: 5 years?

Neeraj Jain: 25.

Anik Mitra: 25, years. Okay, okay. And sir, in the home textile division, like volumes, which was shifting from Pakistan to India during crop loss in Pakistan, so what is the current situation? Like is it -- like does it sustain to India now, or like it again went back to Pakistan?

Neeraj Jain: No, I understand they are running full capacity utilization, the Home Textile people, so that volume continues in India as well now.

Anik Mitra: Okay. Again, like there is a disturbance.

Moderator: Sir, what I'll do is, I'll disconnect you and then I'll reconnect you back in the call, sir. Just give me a moment.

Neeraj Jain: Mr. Mitra, you can please repeat your question.

Anik Mitra: Sir, if you can repeat the Home Textile volume-related question?

Neeraj Jain: So, the whatever volume ………….. Now we are in a position to sustain and all the Home Textile markets are running almost full.

Anik Mitra: Hello. Hello?

Neeraj Jain: Yes.

Anik Mitra: Sir, you are not audible at all.

Neeraj Jain: Hello, can you hear me?

Anik Mitra: Yes, yes. Now it's better.

Neeraj Jain: So, on your question I can answer that the home textile people as of now in India, they are running full. So, we can reasonably assume that the business is here only.

Anik Mitra: Sir, another one question like I will take it from the transcript. It was not audible. There's one another question regarding the employee cost. As you mentioned, you've been going up employee costs from 13% of the top line, a year back to 10% of the top line at -- in the recent quarter. So, you were saying it is a – my question is when another INR200 crores of capex is done, what would be the including cost addition we can see. Like it will be in the same range or any further addition in percentage term will be witnessed.

Neeraj Jain: No, no. It will be authentic capacity ………. existing location. So, the -- for the any existing locations, the further -- the marginal employee cost will always be lower.

Anik Mitra: It will be in the same range in percentage term -- percentage of the top line term?

Neeraj Jain: No, it will be lower than the ……………..

Anik Mitra: Okay. Fine, sir. It's a severe problem in the audio. So, I will get the answer hopefully from the transcript. Thank you so much.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I now hand the conference over to the management for closing remarks.

Neeraj Jain: Yes. So, thank you very much all for the joining this call. And as we have mentioned that there are industry-related challenges because of the demand and other concerns. But definitely, internally, whatever we can do as management in terms of making best use of this situation and looking at cost optimization or maybe the further possibility to sell products or maybe the customer diversification, the new products, etcetera. There are lots of work going on in the company and both the businesses.

And I'm sure the result of the same, whatever we are showing the margins, I think is a part in that. And in the times to come, it will keep improve -- it should keep improving only. So as management, whatever transparently we can do, we can share, we are always there to share our thoughts on the industry side as well as the company side. And definitely, it looks like as of now, the overall, it looks like the worst is over, and maybe we could look at a better time in the times to come.

And as the demand has slowly -- started slowly improving, of course, as I mentioned earlier, also still lots of capacities on utilized the entire globe. But I'm sure the things are improving, and we hope to see definitely a far better next year. So, let's hope for the best. And thank you very much for your patronage and all the -- and your commitment to our company, and we are definitely very, very thankful to all the investing community for the same.

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