



Vardhman

Delivering Excellence. Since 1965.

VARDHMAN TEXTILES LIMITED

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Scrip Code: VTL

**SUB: TRANSCRIPT OF EARNINGS CONFERENCE CALL OF VARDHMAN
TEXTILES LIMITED – 1Q FY26**

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 22nd July, 2025 to discuss 1Q FY26 results.

Kindly take the same on record.

Thanking you,

Yours faithfully,
FOR VARDHMAN TEXTILES LIMITED

(SANJAY GUPTA)
COMPANY SECRETARY

YARNS | FABRICS | GARMENTS | THREADS | FIBRES | STEELS



“Vardhman Textiles Limited
Q1 FY '26 Post Results Earnings Conference Call”
July 22, 2025



MANAGEMENT: **MR. NEERAJ JAIN – JOINT MANAGING DIRECTOR – VARDHMAN TEXTILES LIMITED**
MS. SAGRIKA JAIN – EXECUTIVE DIRECTOR – VARDHMAN TEXTILES LIMITED
MR. SUSHIL JHAMB – DIRECTOR FOR 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. ROSHAN NAIR – BATLIVALA & KARANI SECURITIES INDIA PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the Vardhman Textiles Limited Q1 FY '26 Post Results 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 this conference call, please signal an operator by pressing star then zero on your touch-tone phone. Please note that this conference is being recorded.

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

Roshan Nair: Thank you, Palak. Good evening, everyone, and welcome to Q1 FY '26 Earnings Conference Call of Vardhman Textiles Limited. On behalf of B&K Securities, I welcome all participants and the management of Vardhman Textiles Limited to the call.

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

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

Sagrika Jain: Good afternoon, everyone. Welcome to the quarter 1 earnings call of Vardhman Textiles. We have declared the results for this quarter, and I'm pleased to share with you that the operational performance has been at par or slightly better than the previous quarter, of course, excluding some extraordinary items.

It continues to be a very challenging period for the spinning industry. Indian cotton is still trading at a premium to international cotton. So it ranged between \$0.80 to \$0.82 per pound during this quarter and it has further increased to around \$0.85 in July 2025 due to a higher MSP.

And the MSP for the upcoming cotton season has already been announced with an increase of nearly 8%, making Indian cotton even more expensive in the future. The CCI has been the largest buyer of Indian cotton. They have bought about 30% of total cotton produced this season.

While this definitely improves availability of cotton, price remains a challenge. So CCI has increased cotton prices by about INR2,500 to INR3,000 per candy in the past month alone. So this has made Indian cotton amongst the most expensive cotton in the world for -- if we compare it to other equivalent qualities.

As a result, Indian mills have more than doubled their cotton imports. Imports are expected to reach about 35 lakh to 40 lakh bales in the current cotton season compared to the typical 15 lakh to 18 lakh bales annually. However, unlike competing countries like Bangladesh, Vietnam, Indian spinners on top of this, face an 11% import duty, which puts them at a further disadvantage.

During this period, cotton traded in the range of \$0.66 to \$0.68 per pound on the New York Futures. And the landed cost of this is about \$0.78 to \$0.80 for mills in Vietnam and Indonesia. If we compare this to our Indian situation, that is about \$0.82 to \$0.83, highlighting a cost disadvantage of about \$0.03 to \$0.04 per pound.

And if we put on top of this some quality variation and quality distinctions between Indian and international cotton, this disadvantage further increases. So these are some structural challenges that we are facing in the Indian spinning industry.

This quarter also began with what is arguably the biggest global trade disruption in the recent times, which is the imposition of new U.S. tariffs on textile imports. Initially, India appeared to be relatively better positioned compared to China, Bangladesh and Vietnam. However, the policy continues to shift, and we are still waiting for the dust to settle and some clarity to prevail.

This has led to a lot of volatility and confusion. As a result, U.S. buyers adopted a more cautious stance, delaying new orders while working on tariff mitigation strategies and adjusting inventory levels amidst softening retail demand due to inflationary pressures. So this has led to a visible slowdown in new order placements from the US market during this quarter.

That said, because we are a diversified company with a diversified geographic exposure, so this acted as a strong buffer for us. Markets such as UK, EU, Japan, South America, Egypt, Australia and our domestic Indian market remained relatively stable, enabling us to maintain healthy capacity utilization.

I'm also pleased to report that our yarn and fabric sales during the quarter remained broadly in line with the corresponding quarter last year, which is an achievement well worth noting amid global headwinds. While external headwinds continue to persist, we remain a long-term believer of growth and of the growth potential of this industry. That's precisely why we're making significant investments both in spinning and fabric.

Our fabric expansion is progressing as per schedule and we can expect it to begin contributing meaningfully to our top line and bottom line from quarter three onwards. Additionally, our capacity expansion in our mechanical recycling plant, ReNova, has successfully begun operations in July. And also the expanded capacity of 14,000 spindles in Melange yarn is now operational. Thank you and we now open the floor for questions.

Moderator:

The first question is from the line of Vaishnavi from Craving Alpha Wealth Fund.

Vaishnavi:

Good afternoon, ma'am. My first question is regarding the Bangladesh and yarn exports. So considering VTL accounts for approximately 50% of India's total yarn exports to Bangladesh and Bangladesh currently shifting its yarn imports from India to China, what can be the potential impact of the same and how are we planning to mitigate it?

Neeraj Jain:

Yes. From India, there's lots of export of yarn to Bangladesh. But for us, Vardhman, it's about 30%, 35% instead of 50%. To whatever customer base we have, whatever products we have, we are not finding any shifting of that happening from China or other places. Rather, there's a challenge and a concern every year that since there is a Chinese cotton is under question mark,

especially from the Europe and USA. So there's no -- apparently, there's no direct shifting of the yarn sourcing from India to China as of now.

I think everyone is looking at what the eventually this duty structure would be; one, directly to the USA; two, for the material to be shifted from one country to the other. I think as of now, there is no -- not much of difference happened as of now in the China -- in the Bangladeshi imports. But yes, we are looking at it carefully. And once these things are announced, only then we could look at what could be our next course of action. But as of now, for Vardhman, I don't find any difference or any issues as of now.

Vaishnavi: Sure. My second question is regarding the tariffs that are -- that has been imposed on Bangladesh by US. Hello?

Neeraj Jain: Again, it's not the tariff which has been imposed. They have only given a statement that the tariff is likely to be -- earlier, they said 37%, then they said 35%. But I think still the official announcements, whether this is applicable -- is made applicable or not is yet to be done. But yes...

Vaishnavi: Right.

Neeraj Jain: In case it is 35% plus whatever custom duties were there earlier, in case it becomes 50%, definitely, the other countries wherever the tariff would be lower, would be in a position to take advantage. But I think we'll have to wait for maybe another some more days before all this -- the entire world situation gets cleared on the tariffs.

Vaishnavi: Right. If I can follow up on that question, sir. If the tariff takes place, so by any chance VTL is planning to take -- anticipate any medium-term opportunity for VTL by exporting to USA?

Neeraj Jain: The USA buys final product, which is either garments or home textiles. We are not into that business as of now.

Vaishnavi: Right.

Neeraj Jain: Our business is the yarn and the fabric. So we will be supplying the material to all the players who would be doing the garment export or the home textiles export. So for example, the Indian garmenters if they get the opportunity and they want to export to the USA, we will become supplier to these garmenters.

For Vardhman directly, nothing can be exported to the USA, because USA doesn't do much of garmenting or home textile, they buy the final product only, which is not our line. But yes, if the business increased in India, Vardhman will have the great opportunity to sell to the Indian players so that the final products could go to USA.

Vaishnavi: Okay.

Neeraj Jain: Yes.

Moderator: The next question is from the line of Riddhesh Gandhi from Discovery Capital.

Riddhesh Gandhi:

Sir, there's -- the difference between Indian cotton and the American cotton, obviously, has been continuing for a number of quarters now. And we've been like cautiously optimistic that it's going to turn around. And obviously, it isn't in our control. Just wanted to understand from your perspective, how -- are there any triggers which you potentially see that can help to rectify this and bring us back to our normalized margins?

Neeraj Jain:

Yes. So the industry has been requesting the government to allow the duty-free import of cotton. And we understand the Textile Ministry is trying for the same. So that seems to be the only option as of now if they allow the duty-free import, probably, then we will also be in a position to import the cotton at an international parity, too.

I think that will also bring down some parity for the domestic selling prices also. So government has -- government -- Textile Ministry has written to the Finance Ministry, but we are not sure, it's been almost two months now. And that's the only way where the raw material cost could come to the -- could be normalized in India and the industry may start looking at the normal margins again.

Riddhesh Gandhi:

Got it. But are there any potential implications on the Indian -- the farmers if they reduce the duty and also in case of we do reach a trade agreement and the duties are removed, would it help us? Just wanted to understand. But these are two separate questions, sorry.

Neeraj Jain:

Two different -- both aspects are absolutely different.

Riddhesh Gandhi:

Yes.

Neeraj Jain:

So, one, the government has to support the farmers, that process is through the minimum support price. That's in any case, and it's not only for cotton, wherever the government has committed the minimum support price, they'll keep buying those products from the farmers at the minimum support price and they'll keep selling in the market at the market-related prices. So that's one mechanism. Be it wheat, be it rice, be it cotton, that mechanism is on.

The second is the import of raw cotton duty-free, which was implemented only in 20 -- budget February '21, this was imposed. It was never there before. So we are asking the government to -- it's important for everyone to support the farmers so that the cotton crop is there.

At the same time, industry should be given an opportunity or should be allowed to import if the local prices are higher. So both the mechanisms are separate. Farmer is 100% secured by a minimum support price, which is what the government is doing through the CCI and there's not any impact on them with the duty-free cotton crop.

Riddhesh Gandhi:

Got it. So what will -- okay, I will come back in queue.

Moderator:

The next question is from the line of Vansh Solanki from RSPN Ventures. Please go ahead.

Vansh Solanki:

Hello, sir. Very good set of numbers. So first of all, my question is on the yarn demand and pricing, like our GP margin is increased a little bit from March quarter. So does this mean that the demand has also started going up? And is there on ground demand for yarn shipping? And

also I want to understand the prices of the yarn, are they stable or going up? What kind of scenario is there on ground?

Neeraj Jain:

So on the demand side, there is not any improvement, but at the same time, not any deterioration also, so it's almost stable. On the prices also last almost 6 months, the price band has been going up plus/minus 5 from either on the demand side or on the yarn pricing side.

Our only concern is since the margins is not very good, with the pricing going up in India, the situation can actually deteriorate in the third quarter, which will written to the government under the duty-free import of cotton, the raw material price to us is comparable to international prices, margins can actually come under more pressure.

Vansh Solanki:

Okay, sir. And the second one is that our margin also improved very much from the March quarter because the international issues of the Red Sea and all may be going to stable. So can we assume that the 14% these margins will now range and this can come through the full year '26?

Neeraj Jain:

It's very difficult because today the market is absolutely very dynamic what happens to the duty structure, what happens ----- (inaudible), what happens whether they -- our cotton will continue to be expensive or not. So anything on the spending side today is a must. Since the strategy was to move, and stability is relatively good. In fact, if the trade is not very good, there are different major things based.

So I think we'll have to wait for some more time. One, uncertainty of tariff, if it is clear we can do more. And stock, as I told you the concern, look at how do they want to have the raw material parity in India concern. But yes, going by today's situation I'd say, we have much more volatility and uncertainty as of now for maybe a couple of weeks.

Vansh Solanki:

Okay, okay. Thank you, sir. I will come for a follow-up question if needed. Thank you.

Moderator:

Thank you, sir. The next question is from the line of Prerna from Elara Capital. Please go ahead.

Prerna:

Hello. Congratulations, sir, on improvement in margins. Sir, just wanted to understand what -- how much cotton would you have in inventory now? And what would be the average cost? And how much of it would be imported?

Neeraj Jain:

Prerna, numbers I can't share the numbers, but I can only say normally our season starts in the month of October or November. And generally, we have the cotton up to that period. But this time, definitely, we have a little longer cotton compared to that, both Indian and imported together.

Prerna:

Okay. And sir, how much of this will be imported and if you have hedged any? I just wanted to understand that.

Neeraj Jain:

We will have the same amount of both.

Prerna:

Okay. Okay. And sir, in this Q-on-Q improvement in gross margins, what really helped actually? Is it better cotton price in the system or yarn -- better mix of yarn, like more value-added yarn

being sold? I mean just trying to understand what helped improvement in gross margins on a Q-on-Q basis.

Neeraj Jain:

In the first quarter, the prices of cotton were lower, so that was an advantage. It is possible that for some companies that have cotton in the second quarter, that may continue. But at the same time, in any case second quarter we'll have to buy cotton from the market also because for the future requirements.

Now that's a concern that even though the margin was a little better in the first quarter company as a whole. But if this continues the way prices have moved in last 3 weeks in India, I'm sure unless the yarn prices improves, the margins cannot sustain at these levels.

Prerna:

Okay. Okay. Understood. And sir, if I just want to understand the trade right now, you've spoken that there is a lot of -- there's not much clarity. But what we hear from the trade community is that these tariffs are being asked to be shared by the supply chain partners. Has any of sharing being done by you for your partners or any such thing has come to you, which could also strain margins in future?

Neeraj Jain:

So on the spinning side, we've got a couple of requests, but considering our margins, we could be -- we could explain to the partners that it's really not possible for us to share in the spinning. Fabric side, some specific customers, we have done some small adjustments. But that's really very, very insignificant compared to the overall size of the organization.

It was a onetime request, we have accepted that since our customer was in trouble. But I can surely say that amount was so small that it's not likely to impact -- that particular part is not likely to impact the overall margins going forward.

Prerna:

Okay. Okay. Understood, sir. And sir, last question from my side on power. Has our power cost started coming down because of green investments being done in the last 1 year? And what would be the -- what kind of benefit would have been occurred in this quarter for the same?

Neeraj Jain:

So there are a couple of aspects of the power. One, we have put in some small capacities on our roofs in the factories. That capacity by and large, is operational, but that's a very miniscule capacity. So that advantage has started coming in. We also entered into an agreement for -- with a third party where we created the STV and that power has to be supplied to us.

That advantage will start coming in maybe next 1 or 2 months it will start. And I think we'll keep building it up in the next 1 year. But as of now, that advantage is not coming. Third is we are also looking at the possibilities for some initiatives within -- for our energy conservation within the operation both spinning and on the fabric side. So we've taken lots of initiatives on their side also, which I think we'll complete in next 6 months' time. And fourth is we are going in for the biomass-based boilers where the cost of steam and the cost of power should come down.

Those things will be applicable only once we complete the project, which will be close to about a year from today. So the major benefit is not coming, though the investment has started happening. But the major benefit, I think will start during the next 3, 4 months, and it will take us about a year or so to start taking the full benefit of that.

- Prerna:** Okay. Understood, understood. And any capex that you see, any cost -- incremental cost that has come in P&L instead of balance sheet in this quarter?
- Neeraj Jain:** No, no, not really.
- Prerna:** Not really. Okay, sir. Thank you, sir. I'll come back to the question queue again. Thank you.
- Moderator:** Thank you, ma'am. The next question is from the line of Falguni Dutta from Mansarovar Financials. Please go ahead.
- Falguni Dutta:** Yes, good evening, sir. Sir, I missed your answer on the cotton yarn spread, in absolute terms, what are they now? And what kind of a decline do you see in the coming quarters?
- Neeraj Jain:** So the yarn prices are almost USD3 as of now. And it was the same earlier also. So considering this price, considering the near future of \$0.67, \$0.68, the international spread for cotton yarn is in the range of about USD0.85 to USD0.90. But since the Indian cost is higher, so the Indian spinner margin as of now is close to about \$0.70.
- But the way Indian cotton prices have increased last 3 weeks, we have seen the price increasing by almost INR2,500 to INR3,000 a candy. So I'm sure unless the yarn prices improve, this will come down by another \$0.08 to \$0.10 for the yarn spread.
- Falguni Dutta:** Okay. And sir, I have one more question, which is on what is the landed cost of cotton now for us in India from U.S.?
- Neeraj Jain:** So the landed cost normally U.S. cotton is available on a basis of 1,200 to 1,300 -- 1,200 to 1,400 basis points over New York Futures. But India is importing vegan cotton, which is spread at about 800 to 900 basis points over New York Futures.
- Falguni Dutta:** And sir, we would be importing cotton from U.S.?
- Neeraj Jain:** No, we are importing from U.S. We are importing from Australia. We are importing from Brazil also. So, we are importing from all 3 countries.
- Falguni Dutta:** Okay. Sir, could you just clarify what was that you said it's 1,200 basis points higher versus...
- Neeraj Jain:** So, the New York Futures is at USD0.68 as of now. So, the cotton which we buy from -- anyone buys, it covers the freight cost, it covers the cost -- the local transportation. It also covers the commission and the trade partners' cost. So, U.S. cost generally is available in India on a basis of 1,200 to 1,400 basis points over and above the New York Futures. So, if the New York Futures today is USD0.68, and that the cotton will be available in India at about USD0.80, USD0.81 or so.
- Falguni Dutta:** Okay.
- Neeraj Jain:** The Brazilian cotton is available on a basis of about 800 basis points. So, if USD0.68 is the New York Futures, it will be available in India at USD0.76.

- Moderator:** The next question is from the line of Prerna from Elara Capital. Please go ahead.
- Prerna Jhunjhunwala:** Thank you for the opportunity. Just wanted to understand the order book position and the demands in both yarn and fabric businesses given the uncertainty in our customer today?
- Neeraj Jain:** A little lower, I'll say not significantly lower, but definitely a little lower because all the brands they are talking to us for the business. At the same time, they want to place the business only once the tariff flat rate is there because there are still -- nobody knows that which country will have what kind of tariffs.
- So though everyone is talking about the business because the retail sales in U.S. is good and the pipelines are not being filled up. So, there could be a possibility of a sudden demand rising. But again, since the tariff is not clear which country will have what. So, they are -- the brands are trying to go only hand to mouth. So, to that extent, the future order position is a little lower compared to what it used to be.
- Prerna Jhunjhunwala:** Okay. And the same goes for fabric. I mean, any...
- Neeraj Jain:** Yes, yes, yes, both businesses. Both businesses.
- Prerna Jhunjhunwala:** Both. Okay. And sir, how much would be our exposure for U.S., Europe and U.K., I mean, in terms of customer to whom we are supplying -- the product that is going to U.S., Europe and U.K. so that at least we know that if Europe is -- if U.S. is uncertain, at least U.K. or Europe could still be better off from our...
- Neeraj Jain:** So, there are 2 parts of the business. One is the direct business with the U.S. brand. Second is the -- our business in India or other countries where we are supplying yarn or fabric and they would be doing the U.S., which we would not be doing.
- So, I can have data only of the -- our direct sales to the U.S. brands, which we know where the material could be going to Vietnam or Bangladesh or wherever where the business has been done by us directly with the brand and then the garmenting would be happening anywhere they want, be it India, be it other countries, be it Sri Lanka, be it Bangladesh or Vietnam.
- So, I think on the spinning side, whatever export we do, almost 30%, 35% is to the U.S. brands finally. Of course, if I'm supplying -- I mean, a lots of that material will be going to Vietnam or to Bangladesh. And now the -- in the trade tariffs, eventually, whatever tariff is for those countries, that will be applicable on them, not on us.
- Prerna Jhunjhunwala:** Correct.
- Neeraj Jain:** On the...
- Sagrika Jain:** One the fabric side, our sales to U.S. is about 40%, 45% of total fabric business.
- Prerna Jhunjhunwala:** Okay. And what would be Europe and U.K.? Will it be a balance or -- balance of exports?

- Sagrika Jain:** So, like I can tell you that it's in the single digits as of now. But given the situation, I think we are now making significant -- we are taking significant steps to more diversification so that we have a more well-balanced portfolio.
- So, U.S. historically has been the largest consumer economy. It's also been one of the most profitable markets, which is why, of course, our -- we were -- we had a lot of opportunity there. That being said, our domestic sales continues to be about 30%. So that is our geographical makeup as of now.
- Prerna Jhunjhunwala:** Okay. And how has been the demand in India, whether that also facing some hindrances or it's still stable?
- Neeraj Jain:** The Indian demand, I don't think there's any impact. The local demand is normalized. There's no issue on that.
- Prerna Jhunjhunwala:** Okay. Is it improving, sir? Just to see whether it's offsetting some of the impact from U.S.
- Neeraj Jain:** It is neither improving nor deteriorating so it's just going as normal.
- Prerna Jhunjhunwala:** As normal, okay.
- Moderator:** The next question is from the line of Veena Kashyap, an Individual Investor.
- Veena Kashyap:** Yes, hi. Thank you for taking my question. I actually have a couple of questions. I wanted to ask, can you help me understand what is the spindle capacity for '25? Does the 17,000 spindles being completed, the expansion of that included in FY '25? And how do we see it -- like what do we see the capacity to be like in FY '26 and '27?
- The second question, sorry, I missed earlier because of the audio quality. You -- an earlier participant asked about margin expansion, like is it likely to continue? Could you just repeat that or help me understand that do we see that trend to continue going forward? Thank you.
- Neeraj Jain:** So, on the spinning side, our capacity today is close to about 1.3 million spindles, and there's not much of expansion happening, except some 2 small projects of 17,000, 18,000 spindles each. So -- but at the same time, we are doing some debottlenecking on the business side also. So, I hope our overall production, which used to be about 710, 720 tonnes would increase to about 750 tonnes or so. So that means a total of about 6% to 7% growth on the production side on the sales side. On the fabric side, Sagrika?
- Sagrika Jain:** On the fabric side, we are currently at 145 lakh meters per month process capacity. And in the next 3 to 4 years, this will go up to about 210 lakh meters per month. So, this will include expansion of existing lines and also addition of our new synthetic line, which is coming up.
- Veena Kashyap:** Okay. Thank you. Just approximate an number on FY '26, '27 capacity?
- Sagrika Jain:** It will be a little difficult to comment on this right now because there are different time lines. Also, it will take some time for us to achieve 100% capacity -- like 90% plus capacity utilization.

So, it will be difficult for us to give the exact breakup. I think next 3 to 4 years is the horizon we are seeing.

Veena Kashyap:

Okay. Understood. And on the margin front, do you see the trend to continue?

Neeraj Jain:

See, I mentioned on the margin side that going by the normal situation, probably the margins can continue. So, we have 2 uncertainties as of now in our hands. One is the trade barriers or the trade tariffs, which we are not sure of what's likely to happen. And then the -- so we'll have to wait till the time the U.S. decides finally which countries has what -- which kind of a tariff and then accordingly, the margins could be differentiated.

Two, in India, on the spinning side, the margins could actually come down as our cotton prices have started increasing in last 2, 3 weeks. And the next year -- going by the next year MSP, the prices are likely to increase only.

So, unless the government looks at allowing the cotton to be imported duty free, I think the margins are likely to come down only in this situation or the CCI wants to preserve the cotton and sell it at -- on the international parity, which they are not doing as of now. So, we are not very sure how they are -- what their policy will be the next year.

As of now, they are selling cotton at a much higher price than the international prices. So, which is the reason the Indian spinners are not in a position to make money. So, I think on the spinning side, going by the today's situation, it will be more challenging to maintain the margins unless the government comes to the rescue where they have to decide that the local spinners should get the cotton at the international parity, which is not the case as on today.

Sagrika Jain:

But company overall, as we increase investments in the textile part of the business, the margin of the company will certainly improve from our current margin.

Moderator:

The next question is from the line of Lakshminarayanan from Tunga Investments. Please go ahead.

Lakshminarayanan:

Thank you. You mentioned that there is import and local cotton prices are different. Now in case you import and if you have any -- get any setup benefit in case you actually export. So is it -- I think you import around what, 20% of your total yarn -- I mean, cotton requirement. And in case you actually -- is there a benefit you get in case if you export more?

Neeraj Jain:

So, in case the normal duty in case of import of cotton is 11% in India, we can import the cotton under advanced license where -- but at the -- for export of yarn, but it has two disadvantages. One, we lose on the duty drawback, which is about 1.9% and also the RoDTEP amount is lower than the normal RoDTEP. So, in totality, the effective duty in case of advanced license will be about 4.5%. But that's only in case of you want to export the yarn.

So, our yarn export is 1/3 of the total production we do. The remaining 2/3 is sold in India, both to the market as well as to the fabric division. So over there, for the domestic consumption, we can't import cotton under advanced license. So practically, best case scenario for us to import cotton with a concessional duty of 4%, 4.5% would be about 25%, 30% is the best-case scenario.

Lakshminarayanan: Got it. Got it. Got it. This is helpful. And you're actually adding capacity and you also talked about capacity utilization. Question is that are you seeing enough demand for the yarn? And usually, what is the organic -- what kind of growth you're actually expecting from a yarn output, which you can actually sell in the market?

Neeraj Jain: So, there's absolutely no issues in terms of the demand of the yarn. It's reasonably good. And we never had the issue for selling of material in the yarn market. So, there's enough demand to that extent.

Lakshminarayanan: Because what I also hear is that there are -- suboptimal units are willing to close down or they are unable to run it because of power cost/availability of manpower/availability of raw material. Is that -- are you taking market share from smaller players who are the top 2 lakh spindles, et cetera?

Neeraj Jain: So, there are different reports which are compiled by the industry, different organizations, different associations. We understand as of now that the total last 2, 2.5 years, almost 9 million, 9.5 million spindles have been stopped permanently, especially the smaller ones.

So, the effective spindle available in India today is estimated -- it was earlier about 54 million, 55 million spindles, which now is estimated close to about 44 million, 45 million spindles. But these are all industry estimates. There is no accounting or a government data, which supports this.

But yes, the studies done by the private players or by the different associations, I think the information seems to be quite reliable and good that in India, almost 9.5 million, 10 million spindles have stopped permanently in last 2, 3 years. As of now, the demand in India is not increasing because the export viability because of the cost, etcetera, is not increasing. But at the same time, there is definitely indirect consolidation happening in India.

And I think the long-term players may get an advantage in the long-term if the capacities----- (inaudible) indirect amount of consolidation surely is happening.

Lakshminarayanan: Got it. Sir, and one question is related to the yarn profitability. How you are actually optimizing on yarn profitability? Have your mix of counts have actually core count, fine count has actually changed? And if you can just throw a light on in the last 3 years, how your yarn mix has changed towards higher profitable yarn versus lower profitable yarn?

Neeraj Jain: So in terms of count, etcetera, I don't think there's any major change happened. Our average count used to be about 28. It is still 27, 28 only. So there's not much of change in last 2, 3 years. But definitely, our customer profile has changed significantly in last 4, 5 years. So just to give you an idea, we used to have about 8% to 10% business, which was the direct brand business, which today is increased in the -- on the yarn export side, which today has increased to maybe about 35%, 40%.

So I think on the customer profile, definitely, there's an improvement. And all those customers which are coming in, they are bringing in the more value-added products also. So that's the only way -- that's the only area where the margin could still be managed even in this kind of a difficult

times. But yes, on the overall, the count-wise or the yarn count, etcetera, there's not really much of change.

Lakshminarayanan: Sir, that's an interesting thing that you talked about brands directly soliciting from you. So in general, when you actually sell through the agents versus selling directly to the brands, what is the margin difference you actually get?

Neeraj Jain: So 2, 3 things. One is the margin. Second is the stability of the business. So first, I'll say the stability of the business remains far better because these brands generally will not change the vendor base only for \$0.02, \$0.03, \$0.05, whereas for the trader, every \$0.01 is important and whosoever supplies them \$0.01, \$0.005 cheaper, they will move on to that. These brands there are lots of issues, concerns, audits, ESG and their compliance issues.

So normally, these brands will never change the vendor base for \$0.02, \$0.03, \$0.05 or so and so on. So one is the stability of the business. Two, when these brands come in, definitely, most of the time, the margin will be a little better compared to -- on the basic products, a little better compared to the trade business.

But more important, third, which is more important is that they bring in lots of specialized products, be it a particular cotton, be it a particular value-added product where the margins can be significantly higher. So I think looking at all these 3 aspects, we try to move more and more towards brand business, the stability of the business, profitability and the overall reliability of the system definitely improves in a big way compared to a trade business.

Moderator: The next question is from the line of Falguni Dutta from Mansarovar Financials.

Falguni Dutta: Sir, I just wanted to check on this, what is our total export of yarn you said?

Neeraj Jain: Our total export is almost 30% of our total capacity.

Falguni Dutta: 30%. And export of fabrics to U.S. was how much, was also mentioned?

Sagrika Jain: Around 40%, 45%.

Falguni Dutta: Okay. And sir, just wanted -- just a request, this audio quality since a few quarters is not that great. So if you could just do a bit about it, then these many repetitive questions can be avoided.

Neeraj Jain: Sure. We'll ask the organizers to relook at that because I think it's organized by B&K. I'll definitely -- B&K is also -- and kindly look at it for the future calls.

Moderator: The next question is from the line of Vaishnavi from Craving Alpha Wealth Fund.

Vaishnavi: My question was regarding the capacity utilization. What was the capacity utilization for this quarter? And any ballpark figure you can give for the estimated capacity utilization for FY '26?

Neeraj Jain: On the spinning side, we were running full capacity and even on the fabric side, we were practically running the full capacity. So there's not much of expansion except some small

expansion on the spinning stage where we feel as and when it comes in, we should be in a position to utilize it 100% the market comes in.

On the fabric side, Sagrika mentioned whenever we add a new capacity, because in the fabric side, we do only make-to-order kind of products. So it may take us maximum 2 to 3 quarters before the 100% capacity utilization comes in. And especially this is a period where we will be adding the synthetic fabric also, which is a new product line for us. So we are hopeful that we should be in a position to utilize it very fast.

But at the same time, there's always some learning curve. We have to understand the business. We have to understand the customers, their requirement and needs. So generally, our experience is on the fabric side, whenever we add marginal capacity, we are in a position to fully utilize it in about 3 quarters maximum.

Vaishnavi: Sorry to interrupt, sir. I did not get your answer due to audio quality issue. Can you please repeat the ----- (inaudible) yarn and fabric capacity is full.

Neeraj Jain: So the yarn -- as of now, both the businesses, the capacity utilization is full. I'm saying future going forward, whatever is on the spinning increase, we will be in a position to utilize in the first month itself. On the fabric side, normally it takes 2 to 3 quarters before we are in a position to utilize full capacity. So generally, fabric requires 2 to 3 quarters.

Vaishnavi: Okay. And what was the current capacity for this quarter?

Neeraj Jain: It was all 100% utilized.

Vaishnavi: For both yarn and fabric?

Neeraj Jain: Yes.

Moderator: The next question is from the line of Nagraj Chandrasekar from----- (inaudible).

Nagraj Chandrasekar: Could you give me a sense of global trade...?

Moderator: Sorry to interrupt you, sir. Sir, can you please use your handset?

Nagraj Chandrasekar: Hello?

Moderator: Yes, sir, you are loud and clear now.

Nagraj Chandrasekar: Could you give me a sense of global cotton prices and your view on how they might be likely to move given global acreage changes, yields in the major cotton exporting countries? And given this view that you would make in the next few months or so before November, how would that make your cotton buying decision? Are you likely to buy a lot of inventory from what is available or are you likely to buy through the year?

Neeraj Jain: So the overall area in the world, there's not really much of change. And we are likely to look at addition of stock in the next financial year -- in the next cotton season also by 0.5 million tons

to about 1 million tons. So which means the possibility of increasing the cotton price in a big way doesn't look like possible because there will be net-net addition of cotton in the world stocks unless some dramatic change happens on the consumption side.

So going by the today's situation, all 3 agencies, USDA or the other 2 agencies are showing an increase in the -- projected increase in the cotton stocks next year. Now on the procurement for us, we are looking at the international markets, we are looking at the domestic markets also. And depending upon whichever makes us more sense commercially, we'll be buying that.

But just for the information for all of you, normally, we used to import about 3% to 4% of our total consumption of cotton from outside India, which this year, I think we have already done close to about 20% or so. And unless the Indian prices comes down, we may continue to buy more imported cotton.

Nagraj Chandrasekar: Understood. Thank you.

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

Lakshminarayanan: Just wanted to understand, how do you look at profitability on various segments, yarn, fabric and others? Because some of them look at cash profit, some of them look at EBITDA, some of them look at EBITDA per spindle for yarn. So just wanted to understand how as an organization do you look at -- how do you define the unit of profitability in these things?

Neeraj Jain: So for us, we look at EBITDA per spindle per shift. And we also look at EBITDA to sales as a percentage and EBITDA to capital employed. These are the three terms which is used for the spinning business. For the fabric business, it is EBITDA per meter. EBITDA percentage to sales and EBITDA percentage to the capital employed.

Lakshminarayanan: Got it. And if you look at EBITDA per spindle, how it has actually moved in the last 5 years?

Neeraj Jain: So it used to be in the range of about INR5 a spindle shift as a benchmark. It is still in the range of about -- INR5 per spindle per shift. It is still in the range of about INR3 to INR4 for the value-added or INR5 for the value-added products for the basic products, definitely, it is much lower. But EBITDA as a percentage to sales used to be about 14%, 15% in the spinning business, which as of now is in the range of about 10% or so.

Lakshminarayanan: Got it. Got it. And the EBITDA per spindle for the branded business would be much higher than the INR5?

Neeraj Jain: No, not from the INR5 from the normal -- from the trade-related business.

Lakshminarayanan: Sorry, from the? I didn't hear it.

Neeraj Jain: From the normal trade-related business, it will be higher. So INR5 is including the brand businesses, etcetera, etcetera. But otherwise, if you go by the basic products today, there would be hardly any EBITDA per spindle per shift on the basic products.

- Lakshminarayanan:** Got it. This is very helpful, sir. Thank you so much.
- Moderator:** Thank you, sir. The next question is from the line of Zaid from ValueQuest. Please go ahead.
- Zaid:** I just wanted to ask-----(inaudible) for the business and how has this changed over the past couple of years. So it is a rather large----- (inaudible) I just wanted to understand a bit more about that.
- Moderator:** Sorry to interrupt you, sir. Your voice is very low. Can you please use your handset?
- Zaid:** Sure, I am on my handset. Sir, I just wanted to ask a bit around on the power and fuel expenses for the business in FY '25 and how it has been for this last quarter itself?
- Neeraj Jain:** Sorry, I'm not clear on the question.
- Zaid:** Yes, I just wanted to understand more on the power and fuel expenses for the business for the quarter and for FY '25 as well?
- Neeraj Jain:** So power, I already mentioned that there is some small advantage which has come to us by the internal solar power we had on our rooftops. But the major advantages of power will be available -- it will start coming in next 1 quarter or so. And it will take us maybe about 1, 1.5 years to have the full advantage of whatever initiatives have been taken till now.
- We are further looking at some more arrangements and agreements to be done so that our power cost keeps coming down. So I think every quarter, you will find some improvement on the power cost for next 1, 1.5 years.
- Zaid:** Got it. Thank you, sir.
- Moderator:** Thank you. The next question is from the line of Monish Ghodke from HDFC Mutual Fund. Please go ahead.
- Monish Ghodke:** Sir, could you share average realization per kg for yarn and for fabric per meter in Q1?
- Neeraj Jain:** Normally, international parity is \$3 for a 30 count as the average realization in this period.
- Monish Ghodke:** Okay. And sir, you said the...
- Neeraj Jain:** Yes.
- Monish Ghodke:** Yarn margins were faint in Q1. So what were the fabric margins?
- Sagrika Jain:** 17% to 18%, usually around 17% to 18%.
- Moderator:** Ladies and gentlemen, due to interest of time, that was the last question. I now hand the conference over to the management for closing comments.
- Sagrika Jain:** Thank you all for your participation and continued trust in the company. We've been very transparent about the challenges that we are facing, especially over the last two years, which has

been extremely difficult for the textile industry globally. However, within what is controllable, we are fully focused on driving modernization, refining our product mix, launching new product lines, optimizing costs and improving operational efficiencies.

And the improvements we are seeing in our results are a reflection of these efforts. We believe that policy anomalies and trade barriers will eventually correct. So our goal continues to be well prepared so that we can fully capitalize on the opportunities once the external environment improves.

Looking ahead, we remain cautiously optimistic. Despite certainties in the US market, we are strategically well placed and we will continue to diversify geographically further. And we also are excited and enthusiastic for our new synthetic line, which will be upcoming in quarter three.

We will continue to focus on profitable growth, agile customer servicing and innovation-led offerings. Our strong market presence, emphasis on operational efficiency and unwavering commitment to quality will remain the pillars of our business and future growth. Thank you for joining us. See you next time.

Moderator:

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