



Vardhman

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VARDHMAN TEXTILES LIMITED

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**SUB: TRANSCRIPT OF EARNINGS CONFERENCE CALL OF VARDHMAN
TEXTILES LIMITED – 2QFY26**

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 23rd October, 2025 to discuss 2QFY26 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
Q2 FY '26 Earnings Conference Call”
October 23, 2025

“E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 23rd October 2025 will prevail.”



MANAGEMENT: **MR. NEERAJ JAIN – JOINT MANAGING DIRECTOR –
VARDHMAN TEXTILES LIMITED**
**MS. SAGRIKA JAIN – EXECUTIVE DIRECTOR –
VARDHMAN TEXTILES LIMITED**
**MR. SUSHIL JHAMB – DIRECTOR, RAW MATERIALS –
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**MR. RAJEEV THAPAR – CHIEF FINANCIAL OFFICER --
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**MR. MUKESH BANSAL – HEAD OF FABRIC MARKETING
– VARDHMAN TEXTILES LIMITED**
**MR. VARUN MALHOTRA – HEAD OF FINANCE --
VARDHMAN TEXTILES LIMITED**

**MODERATOR: MS. ARADHANA JAIN – BATLIVALA & KARANI
SECURITIES INDIA PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the Vardhman Textiles Limited Q2 FY '26 Earnings Conference Call hosted by Batlivala & Karani Securities India Private Limited. As a reminder, all participant lines will remain 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 the operator by pressing star then zero on your touchtone telephone. Please note that this conference is being recorded.

I will now hand the conference over to Ms. Aradhana Jain from Batlivala & Karani Securities India Private Limited for opening remarks. Thank you, and over to you.

Aradhana Jain: Thank you, Ryan. Good evening, everyone, and welcome to Q2 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 to the call.

From the management, we have 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 of Fabric Marketing; and Mr. Varun Malhotra, Head of Finance.

Without further ado, I would like to hand over the call to the management for their opening remarks, post which we can open the floor for the Q&A session. Thank you, and over to you.

Sagrika Jain: Good afternoon, everyone, and thank you for joining Vardhman Textiles Limited Quarter 2 FY '26 Earnings Call. We are pleased to report a resilient quarter despite significant global headwinds from elevated US tariffs to excess spinning capacity, our yarn and fabric business have sustained robust performance.

Overall, quarter 2 sales have remained stable at INR2,468 crores against INR2,565 crores last year. Despite marginally higher operating costs, the overall profitability is moderated with EBITDA margin at 15.5%. The US 50% import duty has prompted brands to explore lower tariff sourcing destinations such as Bangladesh, Vietnam, Cambodia and Sri Lanka.

Consequently, exporters face order postponements and diversions, while spinners contend with higher inventories and margin compression. In response, we have activated a comprehensive mitigation framework, prioritizing diversification, innovation, deep customer engagement, strategic partnerships and operational agility.

On the raw material front, Indian spinning industry is facing significant challenges due to persistently high domestic cotton prices compared to global levels. This is driven largely by the elevated minimum support price. With MSP announced for 2025-26 showing a further 8% increase, it is likely that CCI will need to purchase even more cotton as private ginners will struggle to buy at these higher prices.

Global cotton prices on the New York futures range from \$0.65 to \$0.68 per pound, resulting in landed costs of about US\$0.76, US\$0.78 for mills in regions like Vietnam or Indonesia, whereas for Indian mills, they faced US\$0.80 to US\$0.84 per pound, which is a cost disadvantage. This cost disadvantage is now eased by the government relaxing the 11% import duty for the time being. We welcome this supporting gesture from the Government of INDIA. This year, overall cotton production level has been estimated to be around similar levels compared to last year at about 310 lakh bales.

Yarn prices declined by 2% to 3% in the past month with import duty relaxation, and it's also -- it also reflects surplus spinning capacity. This widening gap between raw material cost and realized prices has compressed margins across the sector. Indian export volume is maintained in the range of 100 million to 120 million kgs per month.

Now we hope and we anticipate further market stabilization by quarter 4 FY '26. Our diversified portfolio spanning domestic and non-US export markets has provided critical stability with utilizations in the range of 90% to 95% for spinning.

Strategic focus on high-value segments such as melange, cellulosic, compact, sustainable and performance yarns have helped protect reasonable margins. We have also introduced functional performance and circular yarns for evolving activewear and lifestyle segment.

US-based customers have been very cautious in placing their orders and the orders are delayed by about 30 to 45 days and also the quantity has been lower by about 20% to 25%. Despite these market disruptions, the Fabrics division has delivered performance at par with previous year.

The resilience and financial performance is backed by closer customer partnership and engagement, operational agility and innovation. Indian exporters have, in fact, managed this disruption with great strategic maturity, viewing the environment as temporary. For us, our multidimensional response includes targeted diversification to EU, UK, Australia, Canada, Bangladesh and Sri Lanka. And also accelerated delivery timelines to differentiate our value proposition.

However, we are anticipating some impact in quarter 3 and quarter 4, which are historically export-heavy months. Despite substantial market disruption, fabric has sustained 90% capacity utilization, validating our strategic positioning and operational agility. Selective price adjustments to strategic customers have been carefully calibrated and have not materially impacted profitability.

On the expansion front, our expansion road map is progressing well with the Vardhman performance fabric plant currently under erection and expected to be commissioned within this quarter. Once operational, the plant will begin sample development and eventually bulk order processing, initiating production in quarter 3 with capacity utilization anticipated to reach about 20% to 30% during quarter 4.

In addition, the line expansion at our MP location is also underway. Together, these expansion initiatives are projected to increase our overall production capacity by about 30%. Of course, this will depend on market conditions.

With this, we will now leave the floor open for question-and-answers. Thank you.

- Moderator:** The first question comes from the line of Riddhesh Gandhi from Discovery Capital.
- Riddhesh Gandhi:** I just want to understand; you had indicated that you expect a normalization of spreads to potentially start from Q4 this year. Just wanted to understand the drivers that's leading us to believe that that's going to happen?
- Sagrika Jain:** Neeraj, sir?
- Neeraj Jain:** Hello.
- Sagrika Jain:** Can you answer the question?
- Neeraj Jain:** Can you please repeat the question?
- Riddhesh Gandhi:** Sure. See, in your initial remarks, you had indicated that you expect normalization of spreads to happen by Q4 of this year. Just wanted to understand what's leading us to believe that Q4 stuff should hopefully normalize in terms of spreads?
- Neeraj Jain:** No. Basically, I think we are still banking upon that the US trade deals should happen by November or so, which is the expectation going by the media reports and our various interaction at various government levels. So first, we require -- so there are two factors we require to look at. One is the impact because of the tariffs, which is giving us a big concern today.
- And second is the raw material pricing. Fortunately, there has been a period of about a few months where the government allowed duty-free import of cotton. So most of the mills have imported cotton. As a result of that, the closing stock of cotton is -- the country. Of course, we require to look at and understand what strategy will the CCI be following in terms of the pricing.
- So our basic feeling is that -- so two factors. One, all our expansion modernizations will be completed by December, January. So we expect the impact of that will start happening in the fourth quarter. Two, we are also banking upon once the US deal is through, probably the normalization will start happening on that front also.
- And third, which is still a question mark or a concern is more related with the raw material prices, which is all depending upon the government policies. And over there, the question mark is still there. So hopefully, if the -- I mean, one is controllable in terms of modernization and expansion, which is surely we are sure about that. Second is the expectation in terms of the US tariff. Third is still a concern.
- Riddhesh Gandhi:** Sir, and just wanted to understand, is there anything you guys are hearing with regards to extension of the import free of the cotton from the US. Is that expected to continue or be extended?
- Neeraj Jain:** It's not only the US, I think the industry is talking of the import should be allowed duty-free irrespective of whether it's US or Brazil or Australia or Africa. So we are saying if the right price parity is required in country because otherwise, CCI will become the monopoly supplier and

maybe the price parity, if the Indian spinners have to pay a higher price will not be competitive at all.

So, our request to the government is that to have the right price discovery, if the import is allowed, automatically, the domestic prices being offered by the CCI will be aligned to so that the import doesn't happen in India. So, the automatic price stabilization or equalization will keep happening. So that's what we are requesting or suggesting to the government. It is up to the government; how do they want to take a view on that.

Moderator: We take the next question from the line of Raman KV from Sequent Investments.

Raman KV: Sir, I have a few questions. One is with respect to the yarn and cotton prices. What was the prices for yarn and cotton during the quarter 2?

Neeraj Jain: So, the yarn prices have been hovering in the range of about \$2.70 to I'll say \$3 for 30s count.

Raman KV: Per...

Neeraj Jain: \$2.75 to about \$3.

Raman KV: This is per kg, right?

Neeraj Jain: Per kg. And the cotton prices if we convert, I mean, if you look at the New York Future, most of the time, the New York Future was in the range of about US\$0.65, US\$0.66 and taking a spread of \$0.10 to \$0.12 for the international market, which were -- the prices were about US\$0.74, US\$0.75 per pound.

Whereas in India, the prices have been a little higher because in this period, majority of the cotton was supplied only by CCI. So normally, our formula is that New York Future plus 800 to 900 basis points for the cotton, whereas most of this period, CCI sold the cotton at New York Future plus almost US\$0.13 to US\$0.14.

So, to that extent, the Indian cost was expensive, but the yarn prices get determined by the international prices. So going by \$0.74, \$0.75 per pound prices and almost \$2.80, \$2.90, I think internationally, spread was available to the extent of US\$0.70 to US\$0.80 per kg of yarn, which in Indian...

Raman KV: \$0.70 to \$0.80 per kg.

Neeraj Jain: Per kg of yarn, which in Indian context was much less because our raw material prices were much higher.

Raman KV: Okay. This is with respect to the US cotton spread?

Neeraj Jain: No. The US cotton spread is not -- I'm saying the international cotton spread, be it US, be it...

Raman KV: Okay. And sir, my second question is, sir, with the recent export restriction to Bangladesh, is there an excess inventory building up among the industry with respect to cotton?

- Neeraj Jain:** No. I think the cotton inventory definitely has increased in a big way. Nothing to do with that the export of cotton not happening to Bangladesh is more of -- lots of import of cotton has happened in this period. As I mentioned to you earlier, since the CCI was selling cotton at a much more expensive prices, so lots of cotton had come in India against the export obligation even before the duty exemption was not there.
- And after that, once the government allowed the duty exemption, still more cotton is coming to India before 31st of December. As a result of that, there's more than sufficient stock of raw cotton in India, be it imported or be it Indian cotton.
- Raman KV:** Okay. And sir, are we seeing any -- with respect to the supply of yarn in the market, are we seeing any excess inventory building up? Because my understanding is majority of the yarn, which we export, or Indian manufacturers export are to Bangladesh. So, is there any supply disruption?
- Neeraj Jain:** No, not really. So, the Bangladesh, if you look at the last 2 months, 3 months yarn export figures also, it's been ranging in the -- almost in the range of about 50 million kg or so. So India is exporting close to about 100 million kg, 110 million kg now. So practically, about 50% has been going to Bangladesh and that trend continues. So, there's no disruption to that account.
- Raman KV:** Okay, sir. And sir, last question is with respect to the capex, can you elaborate your capex plans and when will they commence?
- Neeraj Jain:** So Sagrikaji will you first tell about fabric and then I will tell about spinning.
- Sagrika Jain:** So in fabric, we had the following capex plan. One was the synthetics plant, and it is currently under -- it has been erected, and it is under commissioning. So, we should be expecting capitalization in quarter 3. So that is -- about 15 lakh meters. Another line we were putting up in Madhya Pradesh. So that is -- that will be operational by again mid-November. So again, same as the earlier, it will be capitalized in Q3.
- Raman KV:** And how much revenue will this add?
- Sagrika Jain:** So, it depends on market conditions. So as of now, the new line expansion, we are not expecting it to be utilized till market improves. It is very difficult -- whereas for the synthetic plant because it is a new project -- we are anticipating by March... the capacity.
- Raman KV:** And with respect to the synthetic plant and new line in Madhya Pradesh, what's the capex spend?
- Sagrika Jain:** Can you repeat again? What is the capex...
- Raman KV:** Capex spend on the synthetic plant and the new line in MP.
- Sagrika Jain:** So, the synthetics plant is up to about INR300 crores and the new line -- the additional line is about INR200 crores.
- Moderator:** We take the next question from the line of Keshav Garg from Counter Cyclical Investments.

Keshav Garg:

Sir my first question was regarding our subsidiary, Vardhman Acrylics. Sir, I can see that this subsidiary used to do around INR30 crores to INR50 crores EBITDA in a normal year. But since the past 2 financial years, this company is practically just breaking even on EBITDA level. So, what is the reason?

And I am comparing it with our competitor, Pasupati Acrylon. So their profitability is intact. They are still doing the INR50 crore EBITDA annually, which they used to do. Sir, so what exactly is happening with Vardhman Acrylics?

Sagrika Jain:

Neeraj, sir?

Neeraj Jain:

The acrylic demand in India has been coming down only. And I mean, if you look at the -- there are only now three players left in India. So one is Indian Acrylics, second is Pasupati and third is Vardhman Acrylics. Now let's look at the overall business scenario because the other three plants over the last 15, 20 years have been stopped one by one.

Indian Acrylics today is running at only about -- I understand from the market, only about 30% to 40% capacity utilization, which is the biggest plant in India. As far as Vardhman Acrylics is concerned, we are running 100%, but of course, there is a pressure on the margins.

Second, Pasupati, I can't comment upon their profitability, but yes, they are running the full capacity. So, our capacity is close to about 22,000 tons. Pasupati is close to about 32,000, 33,000 tons and Indian Acrylics capacity, retail capacity is about 38,000 tons or so. Now India, there are lots of imports happening from Thai and other industries. So, there are two factors.

One, the overall acrylic demand has been coming down because the price gap between acrylic and polyester is -- has been kept increasing in the last couple of years. I look at even the pricing today, practically acrylic fibre is almost double the price compared to, if not double, at least 70% higher than the prices of polyester.

So as a result of that, there's been a lot of substitution, which has happened over a period of last one decade where the more and more demand of acrylic is moving to the polyester. So that there are pressures on companies like Thai Acrylic, which is where our technology and their technology is same. We are all excellent technology. So, they have been exporting -- India has been importing lots of fibres from Thai.

To avoid that, we have been looking at how do the pricing should happen so at least we can continue to run our full operation, and we don't require -- we don't allow the imports to happen to the India. So that's the reason this industry is under pressure.

And in any case, going by the Indian Acrylics or the other one, I think the overall industry situation is not very positive as of now. And I think that's what the situation is on this front as of now.

Keshav Garg:

Okay, sir. Understood. Sir, regarding the yarn spread, sir, is the -- sir, what you alluded to in the beginning that by fourth quarter, you expect the historical spreads to come back. Sir, so is that

contingent upon, firstly, some favourable deal happening with US and continued duty exemption for cotton?

Neeraj Jain:

Of course, yes. Unless these two things are resolved to, we'll never be in a position to reach the historic margin. So these are the two preconditions that there -- we should not have any duty disadvantage. And also the cotton should be -- the raw material should be available to us at the international parity basis. Unless one of them is not there, it's not going to be possible to restore the margin.

Keshav Garg:

Right, sir. Sir, also that -- now that we are expanding in MP, sir, some peers are expanding in Odisha. So, I just wanted to understand that what kind of subsidiary package the MP government is giving as compared to Odisha government?

Neeraj Jain:

So, both these statements, we have studied both the governments. And of course, I can tell you on a policy matter, they can give higher subsidies to any companies on a case-to-case basis. But on a policy matter, the Madhya Pradesh, where we have applied for the land in PM MITRA Park, where the electricity duty -- electricity rate is fixed about INR4.5, whereas the -- for Odisha also, the electricity is almost in the range of about INR4, INR4.5, all inclusive cost.

Two, the Odisha government is giving subsidy or capital subsidy, which is a little higher in the range of about 30% or so compared to 18% to 20%, which Madhya Pradesh government offers. Also, the Odisha government gives you INR5,000 per person per month subsidy for 5 years for all the workers who are engaging.

Primarily, it is on the garmenting, but they are extending it to the textile producers also. This subsidy is not there in Madhya Pradesh. Rather this subsidy is available in Madhya Pradesh only on account of garmenting, on the textile products, we are not giving the subsidy.

At the same time, the fourth big difference is that Madhya Pradesh government is giving the interest subsidy on the loans, whereas the same is not available in Odisha. So, if I look at the overall scenario in both the states, I think there will -- maybe there can be some small difference where Odisha could be a little more favourable in terms of subsidy, but not really any big difference.

Keshav Garg:

Sir, and finally, sir, now if assuming that both these things happen that favourable duty from US and continued duty exemption for cotton, sir so, something like 15% to 20% of the yarn capacity domestically is shut. So, will that capacity not again come back on stream? And if it does, then still do you expect the spreads to, I mean, stay at elevated levels despite so much capacity coming on stream?

Neeraj Jain:

Yes. So, one, I think all the capacities, which has been shut down, they are very, very small units. So, the industry estimation is about 11 million spindles have got stopped. And if you look at the number of units which have got stopped are almost 1,000 units. So practically, all this capacity is with an average capacity of about 10,000 spindles. There will be a few more -- few which can be bigger, but the average is 10,000 spindles.

But that industry to come back or to revise is practically very, very -- I mean, a small quantity can still -- small numbers can still be back. But I think our feeling is more than 80%, 90% may not come back even if the scenario becomes better. That's one.

Two, Today, what is happening because of the disadvantage India has. India is not expanding at all. And wherever these opportunities are there, the other countries are expanded. But one - *[Inaudible]* - as well as the raw materials. Practically, it looks like that Indian spinners may be in a position to expand the capacity a little bit, which will be exportable in a bigger way.

So even once our raw material is in place and we don't have a duty disadvantage, we already have a UK FTA available to us. We are likely to have the EU FTA also. I don't think really that then will be a big issue. And in any case, if you look at last -- before these 2, 3 years, we've been competing with the world, and I don't think that's really any big concern.

Unfortunately, last 4 years because of the duty and our policies, we are suffering more. But if it is an open market, anyone competing, anyone expanding, I don't think that's really a big issue.

Moderator:

The next question comes from the line of Awanish Chandra from SMIFS Limited.

Awanish Chandra:

Congratulations management team on good set of performance, especially on the margin side. So, sir, my first question on the margin. I mean, when we look at the spread and all quarter-on-quarter for last 2 quarters, it has been declining, but great to see on quarter-on-quarter basis, our margin was very resilient ex of other income. So what went into this and our margin remained at the same level as last quarter? Can you explain this?

Neeraj Jain:

No, I think it's only the raw material management because this was a period where we imported lots of cotton and as a result *[Inaudible]* - and two, I think there are some of the businesses where it is the brand businesses, which was doing a little better compared to the commodities.

Third, in this period, we also got a little advantage in terms of the depreciation of rupee, where a part of the cost could get compensated -- part of the disadvantages could get compensated with a better dollar rupee margin. So, I think it's nothing special for us only, but my feeling is anyone who is been importing cotton probably could manage their cost reasonably well in this period.

But of course, I mean, now that period is over and the CCI will be buying the cotton -- majority of the cotton this year. So, it all depends upon how do they want to put the pricing of the cotton which they buy to the market or to the spinners. And that will be more meaningful for us to look at whether we can really be competitive or we have a huge disadvantage compared to the rest of the world, especially against Vietnam, Bangladesh, Indonesia.

Awanish Chandra:

Okay, sir. And second, sir, related question, now since our cotton season will start and still duty exemption is there till 31st December and other things are uncertain, but these two things are certain. So, what will be our cotton procurement strategy because that strategy worked and our margin remain resilient. So, we will procure more cotton at whatever cost we are getting today.

Neeraj Jain:

We have tried to cover whatever best could have been possible because the window was 31st December arrival has to be there for cotton in India. And unfortunately, there are lots of

bottlenecks in Brazil and other countries in terms of the shipment, etcetera. So, it's not only the -- as a country we expect almost 3 million bales will be coming in this period of October, November, December, which will be almost 10% of our total consumption of India.

So, it's not only Vardhman. I think there are lots of trade, lots of spinners are trying to buy cotton so that the shipment could reach India before 31st of December. So, let's see how much can it come and what does this pricing strategy be. But of course, as Vardhman, we have tried whatever best we could get, we have also tried to cover it.

Awanish Chandra: Okay. And my last question on the size of the cotton crop you are expecting this year, whether it will be similar to last year? And second, on the capex side, you have explained and you are already executing your capex. But over next 2, 3 years, will we be adding spindles and all because in our capex plan, most of the things are either modernization or capex in the fabric segment. So, on the spindle side, anything new will happen or any new plan?

Moderator: Ladies and gentlemen, we have lost the line of Neeraj Jain. Please stay connected while I rejoin Neeraj sir. Ladies and gentlemen, we have the line of Mr. Neeraj Jain connected. Awanish, you can please repeat your question.

Awanish Chandra: Okay. So sir, my last question on two parts. One, on the capex side, you have explained in the presentation and you are executing well. But most of the things are on the spindle side, it is modernization and other capex are related to fabric. So, any meaningful addition on a spindle you are planning or you will be announcing in near future first and your view on cotton crop bales in India for this year versus next year?

Neeraj Jain: First, let me complete the question on the cotton crop. Our expectation of cotton crop is likely to be in the range of about 31 million bales or so, which will be a normal cotton. Of course, there's been a very heavy rains in the country as of now, and there's some crop damage expected in maybe Haryana or North India.

But having said that, the range by and large has been good. So, the crop has delayed a little bit, but it looks like as of now, not major concern in the crop numbers. So, we still expect maybe 31 million bales could be available in India.

And in any case, as I mentioned earlier, since India has imported lots of cotton in the last 6 months, including the last 3 months and the next 3 months up to 31st December. So, in terms of cotton availability of crop, there should not be a concern in the India.

Two, on the capex, we have lots of ideas in our mind, which is on the drawing board. But first, we have to look at our concerns getting sorted out as a country or as an industry, one, the US tariff; two, on the raw material pricing. But we still believe that those things will get sorted soon.

And in Madhya Pradesh PM MITRA Park, we have taken almost 200 acres of land there. There are lots of ideas in our mind. It may not be appropriate for me to disclose it as of now, but modernization has been only part that during this period, we keep looking at our cost and we keep creating more flexibility and robust off late so that we can talk to the market.

But that's not the only thing we are looking at. Of course, there are lots of plans, but I think that can be rolled over only once our basic issues get resorted. And once that's there, I think we'll start announcing because this piece of land which has been taken, again, with the idea of expanding our company in the next one decade or so.

Moderator: We take the next question from the line of Rajesh Jain from RK Capital.

Rajesh Jain: I have five, six, short questions. Sir, in the context of the new capex that is already on live and some of which is going to go live in a few months, how much depreciation should we factor in per quarter going forward?

Rajeev Thapar: So, depreciation is normally at the rate of 10% per year. So capex for these two new projects so far as the technical textile project is around INR350 crores and process line 4 is INR395 crores, around INR400 crores. So we can just get the estimated depreciation at the rate of 10% per year.

Rajesh Jain: Yes. So, for example, this quarter, your depreciation was INR114 crores this quarter in the September quarter. So, on a monthly run rate, now if I take that 75 -- or on a quarterly run rate, are we saying that the depreciation is going to increase to INR125 crores, INR130 crores per quarter, something like that?

Rajeev Thapar: When the projects will become operational, apart there from -- there is the modernization program also going on, which is yet to be completed, some additional depreciation may come on that account also.

Rajesh Jain: Okay. So, a little north of INR130 crores.

Rajeev Thapar: Exact amount, I cannot calculate right now. It's just estimated.

Rajesh Jain: Okay, fine. And sir, my next question is on the UK FTA, when can we see the ground impact and any significant business triggers so far as our business is concerned?

Sagrika Jain: Yes. So UK FTA has definitely happened, and we are also -- we seeing the news that EU FTA also there are positive signs. Now realistically, it will take a few months for on-ground impact. However, like we have already started engaging with our customers and other additional potential customers.

We also have to see that both UK and EU markets are not booming as of now. They are also depressed due to the Russia war and exorbitant prices. So, the economy there is also not doing too well. So, there are a whole host of factors which are impacting market. But that being said, we want to and we are very keen on entering these markets. So, let's hope that maybe in the next financial year, we should be able to see more traction there.

Rajesh Jain: Okay. And what has been the reason for the sharp drop in other income in this quarter?

Rajeev Thapar: Actually, we just compare this quarter 2 with quarter 1. In quarter 1, there was a forex gain to the extent of INR14 crores, INR15 crores, which has got reversed in this quarter. So, impact is reflected to the extent of INR25 crores, INR26 crores in this quarter because income has got

reversed because the depreciation in the rupee -- dollar rupee by INR3 during this quarter and if you see the 30th June dollar rupee rate versus 30th September dollar rupee rate.

That is the main impact, if we compare other income with Q1 versus Q2. And also, investment income has also come down because in Q1, we see the yields had come down from March level. So, the LTM gains were booked in Q1, which is not there in Q2. So that is the cumulative effect.

Rajesh Jain: Okay. But going forward, because I think for the last few quarters, you have been consistently clocking INR70 crores, INR80 crores on the other income. So, can we expect that to happen going forward?

Rajeev Thapar: It largely depends upon the dollar rupee and also investment book, which will carry -- right now, we are having investments of INR1,000 crores sometimes in cotton stock is not there, we are having higher book of investment. So, income could vary to that count. Normally, if you say INR70 crores, INR80 crores, that is I think normalized amount we can always say.

Rajesh Jain: My next question is to Neeraj, sir. So, I think you made a comment that Q3, Q4 are export heavy quarters and they may see some slight impact. But we are still exporting to Bangladesh, right? Because my understanding was that only the mode of transport got changed, right? We are still exporting to Bangladesh, right? So why should Q3, Q4 get impacted?

Neeraj Jain: No. So in terms -- I mean, when we say the Q3 and Q4 are more export oriented, it's more for the fabric. On the spinning side, it's a full year almost same, but the fabric seasonality favours in terms of the export for the third and fourth quarter always.

Rajesh Jain: Okay. So, with...

Moderator: Rajesh, I would request you to please join back the queue, as there are others waiting for their chance. We take the next question from the line of Perna Jhunjhunwala from Elara Securities.

Perna Jhunjhunwala: Congratulations on good set of numbers. So, first question is to understand the impact of cotton. How is the profitability in yarn and fabric, whether we should allocate the entire profitability increase to yarn because this is largely improvement of cotton? Or is there any difference in opinion?

Neeraj Jain: Rajeev, can you reply on this?

Perna Jhunjhunwala: Hello. Am I audible?

Neeraj Jain: Rajeev, can you reply on the other income part?

Perna Jhunjhunwala: No, no. Without other income, I'm talking about. Gross margin, you can say.

Neeraj Jain: Sorry?

Perna Jhunjhunwala: Without other income, we are asking.

Neeraj Jain: Perna, can you repeat your question without other income?

Prerna Jhunjhunwala: Sir, without other income, basically your cotton prices have come down, which has led to gross margin expansion. So, should we allocate this entire increase in profitability to yarn segment or fabric will also be positively impacted with this? And what should be the extent of this increase? Industry-wide, things should be good.

Neeraj Jain: It will be in both the businesses. The impact of cotton improvement will go directly 100% to the spinning business only. But at the same time, the -- since this US issue has come and the prices of yarn has been coming down only.

So to that extent, some benefit will go to the fabric division because the raw material prices comes down. And whenever the raw material prices comes down, everyone will try to utilize the full capacity. And to some extent, then the yarn prices comes down. So indirect advantage always go to the fabric also.

So of course, any raw material movement, it will be primarily impacting the spinning business only, but a part of that will go either way to the fabric also. So, my -- generally historic experience is, you can say 70% will always good or bad, will go to the first business, 30% will go to the second business. That's the historic perspective.

Prerna Jhunjhunwala: Okay. Understood. And sir, how are the tariffs impacting our business, in the sense, are we sharing any cost with the customers, any tariffs with the customers? Or if there is a reduction in demand, I mean I'm just trying to understand how is it impacting? And how is it likely to impact in future till the tariffs are there?

Neeraj Jain: So there are a couple of factors as it can be, one, the US-based customers, most of the garmenters or the home textile players, they have to retain the customer. They have tried to pass on the margins so that at least they can sustain the customers because everyone has a belief that this seems to be a temporary arrangement, ultimately, things will be sorted out.

And -- but otherwise, if you lose the customer from the country, then probably they'll never come back. So, all the garmenters or all the home textile players, they are trying to readjust their pricing so that at least they retain the customer for 3 to 6 months' time. If things doesn't work out, then they'll have to look at whether it makes sense for them to continue with them or not.

Two, they have also requested the vendors to support them because they are passing on their entire margins or they are sometimes taking the hit also. So, we have also, as a company, decided that we should support our customers. And to that extent, our fabric division definitely has supported all their customers wherever they are directly based upon the USA. So that at least as a country, we don't lose the business.

That's the second part. Third part is with the -- every country has now at least some duty, 20% being the lowest in USA. So, the prices of retail in USA. has increased definitely. And to that extent, there is always will be some reduction in the demand because of the elasticity of demand. So, to that extent, every country is going to suffer, India being the more.

So that's the third part, which will be slowly come to know in the next 2, 3, 4, 6 months. But definitely, there seems to be some lesser demand even if they are -- all the garmenters and all

the home textile players, they passed on the entire benefit of 25% to the customer, still the demand is there because of the elasticity of demand.

So, it's impacting us in all the ways. And wherever it is possible, depending upon our margins, we are definitely trying to support. Probably Sagrika can throw more light on this because it's more of a fabric business, which is passing on this to the customer to support them. Sagrika, can you add on to what I suggested.

Sagrika Jain:

So, adding to what has already been said, when we look at the US customers' buying pattern, one, there is a delay in order flow. So, if somebody was placing order in September, they have delayed it by -- they have pushed it to mid-October. So that is a delay of about 45 days. In addition, the quantum, which was there last year, that quantum has also reduced by 20% to 25%.

So there, we can see that the US customers are taking a very wait-and-watch approach. They do not -- they are also doing buying more hand-to-mouth. They are not going for long orders. They are going for small and more frequent orders, so that in case there is any change in policies, then they can respond appropriately to that. So that is also another impact.

And as mentioned, we are trying to -- we have assessed the situation, and we have tried our best to support our strategic customers because we believe that the situation is temporary. And we want to retain business. We don't want the business to go away. In some areas, some of our Indian garmenters have factories outside.

So, in that case, business has been impacted to a lesser degree. But in some cases, we have had to ship the fabric to garmenters outside, maybe Vietnam, Indonesia, Bangladesh, Sri Lanka, again, for the same US customer.

Prerna Jhunjunwala:

Okay. And what will be the impact of this tariff sharing on our current quarter numbers? Or going forward, how should we see the impact on profitability of our company?

Sagrika Jain:

So there is -- it depends from customer-to-customer.

Prerna Jhunjunwala:

On an average basis...

Rajeev Thapar:

It was having minimal effect actually we have given a note also below our quarterly results that you see. And we are not having any, I would say, major impact on our financials for the quarter. And for times to come also, the situation is evolving. And like US tariff is again under negotiation. So we cannot say what kind of impact will be there on the results in the times to come.

Prerna Jhunjunwala:

Okay, sir. And sir, the last question is on other expenses. Our other expenses have increased meaningfully in this quarter. What would be the primary reason behind this increase? And should we assume that this cost will continue to increase going forward or remain the same?

Rajeev Thapar:

Expenses, actually having composition of manufacturing expenses, administration expenses, selling expenses and power cost also. So, if you just compare it with Q1, it has increased by

about INR30 crores, I would say. And it is having by components, some plant and machinery have increased by close to INR10 crores.

Forex as I explained that some part was in the reversal of other income and around INR7 crores, INR8 crores is a part of administration expenses, which is coming in the other expenses. And some selling expenses INR4 crores, INR5 crores has increased. So, it's 4, 5 components under that. Not a big amount, I would say.

Prerna Jhunjhunwala: Okay. There is no component of any hedging or anything like that in...

Rajeev Thapar: Forex is INR7 crores and some part is of -- cotton hedging also about INR4 crores, INR5 crores.

Moderator: The next question comes from the line of Tanishk from Antique Stock Broking Limited.

Tanishk: My first question is on the yarn demand, whether we have seen any significant decline in the demand of yarn post the higher tariffs in the domestic market?

Neeraj Jain: No, the domestic demand continues to be normal. So, there's no issue on that.

Tanishk: Okay. And my second question is, can we see any impact on the margins going forward in the third and fourth quarter?

Neeraj Jain: I've already said -- in case the duty doesn't get resolved, this is definitely going to impact more and more every quarter. And also, if your raw materials are expensive because now the new season of cotton is starting, CCI is going to prefer practically 70%, 80% from the market.

And it all will depend upon how do they price the product or in case they want to keep it with the import parity, including duty, then the industry will not be in a position to bear that. So we have two uncertainties both on tariff as well as the cotton policy.

And we are only hoping that the CCI, we are talking to the government that what should be the strategy and policy. But again, the final call has to be taken by the government only. We can -- the industry can only suggest what do they feel about it.

Moderator: We take the next question from the line of Cheragh Sidhwa from Bajaj AMC.

Cheragh Sidhwa: So sir, as you indicated before that yarn industry where we saw nearly 11 million spindles going out of the market. Just ballpark or just if you could highlight the similar for the garmenting industry. Have you seen kind of units go out of the market? Just ballpark quantum, how much would that be in Tirupur clusters?

Neeraj Jain: The expectation of US customer is that 25% will still bear with you. Of course, the competing countries are at 19% or so. So most of the US customers have said 25%, they will be up to 25%, they'll bear that. And the remaining 25%, which is there only on India has to be borne by the Indian garmenters.

Now if you convert this 25% to the duty, so the garmenter has to reduce the price by 17%, 18% to nullify this 25% because on 100%, if you reduce 17%, the duty will be on 83%, this 25%, which becomes about 17%, 18%.

So practically, today, if you look at most of the garmenters, the margins are in the range of about 13% to 14% -- rather 10% to 14% only. So to that extent, they are passing on 100%. And in any case, we are taking some support from their fabric or from their vendors also so that this difficult time in case we can pass through this, as I mentioned by retaining -- a few months, we still hope by that time the duty impact or the deal will happen between US and India and things should be normalized.

Cheragh Sidhwa: Sure. So just as there has been closures in spindles, at the moment, we have not seen much of closures in the garment business currently.

Neeraj Jain: Yes. So, to that extent, I think nobody is going to expand till the time we find the final solution to these issues.

Cheragh Sidhwa: Got it. And sir, despite these challenges, it's really credit that we have operated at 90% utilizations. In the current quarter, have we seen any of the large fabric players sort of delaying the orders or cancelling the orders on the yarn side?

Neeraj Jain: Sagrika, please.

Sagrika Jain: So far, no cancellation of orders, but yes, there are some postponements and some delays.

Cheragh Sidhwa: This is on the yarn segment, right?

Sagrika Jain: I meant on the fabric side.

Cheragh Sidhwa: And on the yarn segment, yarn segment, the order book continues to remain strong, similar utilization.

Neeraj Jain: No cancellation on the yarn side in any way.

Cheragh Sidhwa: Got it. And sir, just finally, the current, say, yarn or spreads at current spot trends versus Q2, have we seen a decline in the yarn prices or it's similar to the Q2 levels at the moment?

Neeraj Jain: No, the prices have come down surely. Of course, it's been coming down as the cotton prices came down. So, lots of Indian spinners, they bought the cotton and we also started supplying to the China also, which earlier we were not in a position to do that because of the higher cotton prices. So practically, if you look at cotton -- the yarn export numbers, that's maintained in spite of all these issues and difficulties. But to maintain that, of course, prices have come down.

Moderator: We take the next question from the line of Krunal Shah from Enam Holdings.

Krunal Shah: This is Krunal from Enam Investments. So I have one question. In the annual report, you mentioned that we are doubling the garment manufacturing capacity that we currently have. So

I understand that it is on a very small base, but does that indicate any change in our stance towards garment manufacturing in the longer run?

Sagrika Jain:

Neeraj, sir?

Neeraj Jain:

Sorry, I couldn't hear the question. Can you repeat the question, please?

Krunal Shah:

Yes. My question is on the garment business. So, in the annual report, you mentioned that we are doubling our capacity. I know that is...

Neeraj Jain:

No, no, we are going ahead with that. We are not rethinking on that. But that's -- US is very small part of the business. And in any case, to make this business viable, we have to have a decent size. So as of now, our capacity is close to about 6,000, 7,000 shirts per day. So, we are doubling it in any case.

Krunal Shah:

Okay. No, the point is that, does that indicate -- we had a stance that we didn't want to go too much into garmenting because of the labour issues involved around it. So does this indicate you that...

Neeraj Jain:

I'll say the business has definitely done better. And we feel still not very sure whether we can take it up as a full business or not. But definitely, if we try it -- but 6,000 is too small capacity and almost INR35, INR40 is a fixed cost per shirt, which is almost like 6%, 7%, 8% of their capacity.

And in case we are to double that capacity, the fixed cost will be practically 0 additional will be practically zero per shirt basis. So I think it makes sense to make viable this unit at least and then final call we'll take...

Moderator:

We take the next question from the line of Rajakumar Vaidyanathan from RK Invest.

Rajakumar Vaidyanathan: Sir, the first question is this rupee depreciation against US dollar. So, we have not seen the full impact in this quarter because in your other income and I also see in your cash flow there were some derivative losses there. So, I just want to know, should we assume that there will be some upside in the coming quarter, if the rupee depreciation stays.

Rajeev Thapar:

We have closed at around INR88.75 or INR88.80 as of 30th September. So if you just see rupee today, it's I think, INR1 -- INR87.80, so it has appreciated by INR1 from 30th September. So, it depends what kind of situation will be at the end of, say, 31st December or subsequent quarters. On that basis, it will be worked out kind of gains or losses are there.

Rajakumar Vaidyanathan: Okay. Got it, sir. Sir, just one more housekeeping question. So, sir, this is with reference to your associate Vardhman Yarns and Threads. I just want to know whether that associate is also able to maintain the margin compared to June and September.

Rajeev Thapar:

Can you repeat it, please?

Rajakumar Vaidyanathan: Sir, this is with reference to the associate company, Vardhman Yarns and Threads Limited. I just want to know whether the profitability of this associate is also kind of resilient between June and September or it has seen deterioration in next quarter?

Rajeev Thapar: I think it will be maintaining almost the kind of profitability they were having in June quarter, September quarter. It's in the same range, not much deterioration. Having only 11% stake in that company. So, to that extent, the profitability is coming in consolidation.

Moderator: Ladies and gentlemen, we take that as the last question and conclude the question-and-answer session. I now hand the conference over to the management for their closing comments.

Sagrika Jain: Thank you for your participation and continued trust in Vardhman Textiles. The past 2 quarters have, in fact, tested the global textile industry. We remain committed to driving innovation and modernization, broadening our customer and product base and enhancing operational efficiency. The resilience in our results stems from these focused efforts.

Looking ahead, we are still cautiously optimistic. Encouraging signals from the Indian government regarding US trade negotiations reinforce our belief that India's competitiveness will strengthen. Despite near-term uncertainties, our strategic positioning remains strong, supported by initial orders from diverse geographies across existing and value-added segments.

The festive season and its translation to actual demand, along with GST rationalization has brought a positive sentiment in the domestic Indian market. Our market presence, operational efficiency and unwavering commitment to quality will remain the pillars of our resilience and future growth. Thank you once again for your partnership and your support.

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