



“Vardhman Textiles Q3 FY2022
Earnings Conference Call”

January 24, 2022



ANALYST: **MS. PRERNA JHUNJHUNWALA – BATLIVALA AND KARANI SECURITIES INDIA PRIVATE LIMITED**

MANAGEMENT: **MR. NEERAJ JAIN - JOINT MANAGING DIRECTOR – VARDHMAN TEXTILES**
MR. SUSHIL JHAMB - DIRECTOR (RAW MATERIALS) - VARDHMAN TEXTILES
MR. MUKESH BANSAL - SENIOR VICE PRESIDENT - FABRIC MARKETING - VARDHMAN TEXTILES
MR. AKSHAY JAIN - HEAD OF FINANCE - VARDHMAN TEXTILES



Vardhman Textiles
January 24, 2022

Moderator: Ladies and gentlemen, good day, and welcome to the Vardhman Textiles Limited 3Q FY2022 Post Results Conference Call, hosted by Batliwala and Karani Securities India Private Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Prerna Jhunjhunwala from Batliwala and Karani Securities India Private Limited. Thank you, and over to you, Madam!

Prerna Jhunjhunwala: Thank you Faizon. Good evening everyone. On behalf of B&K Securities I would like to welcome you all for 3Q FY2022 post results conference call of Vardhman Textiles Limited. Today we have with us the Senior Management of the Company including Mr. Neeraj Jain - Joint Managing Director; Mr. Sushil Jhamb - Director (Raw Materials); Mr. Mukesh Bansal - Senior Vice President - Fabric Marketing; and Mr. Akshay Jain - Head of Finance. I would now like to hand over the call to the management for initial comments. Thank you and over to you.

Sushil Jhamb: Hello and welcome to our investors and all other market participants. Welcome to the call. Just to give you some highlights on the numbers. We did about 2700 Crores of topline in this quarter which is about a 13% jump from previous quarter same year and about a 50% jump from the same quarter last year.

We have our EBITDA of 800 plus Crores which is 15% higher sequentially and about 170% higher as compared to same quarter last year. The performance has obviously been driven by a multitude of factors, which includes rising yarn prices and rising raw material prices which due to the demand scenario that is laid out and which we will talk to you in greater detail have allowed us to pass on a considerable chunk of the raw material price increases to our customers.

The numbers have already been published, so I will now hand over to Mr. Neeraj Jain for the detailed breakdown.

Neeraj Jain: Hi! Good afternoon everyone. This has been a very different quarter compared to the previous periods where the raw material prices started increasing as the new season started against the feeling of most of the markets that the new arrival coming in both in US and India the prices may come down, which was actually increasing before that. Contrary to that the international prices this was a quarter where the near future from almost 85, 87 cents went to as high as 122, 124 cents and so and so on. Xinjiang cotton prices which started almost at Rs.52000, Rs.53000 a candy most part of the quarter was in the range of almost Rs.65000, Rs.67000, Rs.68000 a candy which further increased as of now to almost Rs.74000, Rs.75000 a candy. The yarn prices in tandem with the increase in raw material prices both international and domestic also increased



Vardhman Textiles
January 24, 2022

and the earlier level of \$4.10 in this period increase to almost \$4.50, \$4.60 and then further increase to \$4.70 or \$4.80 as of now and the domestic prices also increased in the same passion.

For Vardhman we were covered part of the quarter from the earlier cotton which we bought last year at a much lower cost of Rs.42000 to Rs.43000 but at the same time we started buying in this period at a much significantly higher prices which were prevailing prices at that time and since the yarn prices also increased I think there was not really much of a difference on the margins and the same margins continued to be good in this period.

The fabric business also improved significantly in this period in terms of the utilization because earlier period there were the COVID waves and those kind of things, this was the first quarter after a long period of time where we could utilize almost 100% of our capacity and though the margins still were under pressure because there is always be a time lag between the spinning mill prices increase or decrease which can be passed on by the fabric team, but at the same time at least the similar thought was, the similar lining was we could utilize the full capacities in this period and as a result, the topline and the bottom has also got better in our fabric division.

The price still continues to remain very high both internationally though there are issues and concerns people are talking of in terms of the cotton drop in India there are issues and concerns in terms of the supply chain management issues as of now especially from West Africa or even sometimes from the USA those things continue to be there even today also.

Having said that I think the Indian crop as per our estimates or as per the industry estimates are likely to be in the range of about 34 million bales and the convention may also be the range of about 33, 33.5 million bales, so which means in terms of the overall production and consumption numbers are matching and whatever exports happens maybe about 3 million bales which are estimated to be exported during the year and one million bale could be imported so the net 2 million bales we will be reducing or we can reduce from our open stock of almost 7.5 million bales or so.

The supply chain issues continues to be there both for cotton and for yarn, so in between things has started improving, but with this year of the COVID wave probably again there was challenge in terms of availability of container or the number of ships available and I think the supply chain continues to be tight even now also of course since the wave is not really getting much to the people there could be a possibility in our view that these things may get smoothen I think by the next two to three months time.

So in this period in addition to the last expansions which were announced in the last board meeting, so we have announced a new project with a 40 vortex machine may be costing around close to about Rs.600 Crores but since the delivery of all machines are a big challenge as of now



Vardhman Textiles
January 24, 2022

I expect it can be commission fully only in 2024 as most of the ships are booked on the deliveries and they are not working on that. So we hope that once that it will surprising that there is more of an issue of a supply chain with the vendors also I hope as the things normalize we should get a position to finalize the machining and by 2024 this project could be fully commissioned.

So this is what is on our numbers on the business scenario. I think that we can open it for the question and answers and the remaining queries or debate or discussion can be done along with the questions. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Apurva Sharma from PGIM India. Please go ahead.

Apurva Sharma: Thank you, Sir, for giving me the opportunity. Sir, I wanted to understand any color on Capex plans for the fabric capacity.

Company Speaker: There is no immediate decision on that so of course as we are utilizing the full capacity I think we want to sustain it for more period of time and also we are looking at some debottlenecking could happen which may in terms of Capex may not be substantial, but I think wherever we are getting a challenge in terms of delivery of any particular products, we are doing that debottlenecking. So as of now we have not decided anything on the new Capex plans as of now as far as fabric is concerned.

Apurva Sharma: And Sir also at the current level of cotton yarn spread what would be the margins that the industry would be making as a whole, your sense on the same.

Company Speaker: So in my view as of now the spread will be in the range of maybe about \$1, \$1.15 cents or so that is what the range would be as of now going by the today's prices.

Apurva Sharma: So any calculation into say what kind of margins can we expect for the industry, spinning industry.

Company Speaker: It would be because prices have increased in a big way so it will be in the range of maybe 13%, 14% at best.

Apurva Sharma: And sir one last question, on the spindle capacity we have guided. So where are we on the current spindle in terms of commissioning and future commissioning. So, if you could just throw some color on that.

Company Speaker: Yes, so the earlier two projects which were equivalent to about 100000 spindles I think those would be starting somewhere maybe April, May the commercial production will start for both of them and both are likely to be commissioned by September, October 2022 itself. So after that the



Vardhman Textiles
January 24, 2022

expansions which are around 165000 spindles which were announced in our board meeting there is we have not signed any orders of that as of now because most of the machinery suppliers are not in a position to go to the delivery and the prices as of now. So I think that can be done only once we are in a position to finalize it.

Apurva Sharma: Okay so September 2022 is for the 100000 spindles right.

Company Speaker: Yes.

Apurva Sharma: Okay. Thanks. Thank you for the opportunity.

Moderator: Thank you. The next question from the line of Kirti Jain from Canara HSBC Life. Please go ahead.

Kirti Jain: Sir, in your previous question actually you had highlighted that the spreads will come down and margins will come down what are the reasons why the margins will come down to 13%, 14% levels in the coming quarter.

Company Speaker: No, the margins have not come down, the margins are same since the prices are increasing as the percentage the margins are coming down. So as it decline was increase, that is why these margins are dropping down as of now otherwise in an absolute numbers 120, 125 cents that is still available so absolutely not come down.

What I am saying is the margins quoted the number 13%, 14% that were quoted were for the spinning industry in general and not for Vardhman Textiles per se.

Kirti Jain: Okay, sure Sir. So what we should expect for our company.

Company Speaker: It will be between the 18% to 22% numbers and we hope that in the coming future also we will be sticking perhaps to the higher end of this range, but we will endeavor to stick to the range of full year basis.

Kirti Jain: So broadly this kind of absolute EBITDA of 6 million plus could be maintainable right sir at least in the coming some time at least for a year.

Company Speaker: Very difficult it is for a year I cannot comment depending upon what the cotton price, what the yarn prices would be, but yes as of now it is being maintained.

Kirti Jain: Sir any reason why we are not allocating capital in the fabric Sir.



Vardhman Textiles
January 24, 2022

Company Speaker: No it is the first time we have started utilizing the full capacity so we want to consolidate there for a year before we want to take a fresh decision on the Capex, ultimately if the business is good we are in a position to sell we will definitely expand that business as well, but I think it is the first time we have utilized the full capacity, so we want to wait for some more time.

Kirti Jain: Sir given the cash accruals are much stronger than what we would have thought a year back or two years back will we look for further more Capex or what is the thought behind it how much we want to leverage or what is the thought we are thinking on.

Company Speaker: If you look at we have always been a very conservative company and we are more or less expanded slowly but going by the cash flows and the opportunities in our group which looks like there that is why we have taken such a big expansion move. So we are talking of a total 100000 spindles coming now which is almost like 800 Crores or so and then 165000 which was announced 1400 Crores and then these 40 vortex machines which is another 600 Crores plus all the normal capital and debottlenecking so already I think the Capex plan is in the range of 3000 plus Crores for next three years.

Kirti Jain: Correct, but our cash flow should be more than that 5000 Crores cash flow will be there right three years.

Company Speaker: But I would say we will like to go step by step and this is what would be continues to be there we will relook at that but this what as of now has been undertaken.

Kirti Jain: Sure sir. Thanks a lot.

Modeator: Thank you. We will take the next question from the line of Niraj Mansingka from White Pine Investment Management. Please go ahead.

Niraj Mansingka: Thank you for giving the opportunity. Just two things. One is on the margins can you speak something about the industry where the Bangladesh has not been buying much cotton from China and yarn more from India and how is the demand supply situation according to you in the international trade and which countries and is there really a higher cost of yarn that Bangladesh is getting vis-à-vis sometime back because it might be preferring an import from India. So some thoughts on that.

Company Speaker: So the demand continues to be good especially Bangladesh because they have been exporting a lot in terms of the garmenting so there is a lot of demand for yarn from Bangladesh and other countries as well. As far as the demand is concerned there is no issue, no concern, yes Bangladesh's prices are higher than the Indian prices because indirectly they get some subsidy also if they have the yarn plus material made in Bangladesh. So that is why their prices generally



Vardhman Textiles
January 24, 2022

could be 40 to 50 cents higher than the Indian prices. So that has been the history and even today also that gap is maintained.

Niraj Mansingka: But is the cost to them increase because they might be buying more cotton fabrics from India compared to in the past that they might be buying from China.

Company Speaker: Not really because at the same time if they buy the local yarn they get a subsidy from the government on the FOB value of government, if they buy the local yarn or a local fabric. So to that extent they are not having any disadvantages.

Niraj Mansingka: And in terms of your sales of yarn and fabrics, can you just some share some color on where the demand growth is coming from whatever the growth is coming from what type of customers are really buying that.

Company Speaker: So most of the increased demand is coming from the direct branch itself. So they want to tie-up both on the yarn and on the fabric side so there is more demand coming and in terms of the various countries I think Bangladesh from India's perspective, Bangladesh would be the biggest customer for yarn as of now.

Niraj Mansingka: And then fabric sir in terms of the demand for fabric.

Company Speaker: Fabrics also the same situation.

Niraj Mansingka: Sir last question on the cotton situation the prices were less in the early season and later on the prices have moved up. So how do you see the demand supply equation and considering that the amount of net exports that India does has also gone down. So any color on that that we will just put pressure on you to build on cotton at a higher prices and how the industry people competitors cost that acquiring cotton. Some color on that.

Company Speaker: So I have already shared these production and supply numbers in India will be almost matching close to about 34 million bales, and since the export will be less and the imports will be there. So the net, net export could be in the range of about 2, 2.5 million bales which will go out of the opening stock.

Niraj Mansingka: And do you think this would be first or the pressure in the yarn margins will be there because the matching of the export versus the quantum of net exports is very low so when do you think that would have any pressure on the yarn margin.

Company Speaker: Sorry I cannot follow your question.



Vardhman Textiles
January 24, 2022

Niraj Mansingka: I think the question is, do you think that India's cotton discount which are there vis-à-vis the landed price of cotton is US cotton that we shared.

Company Speaker: Yes, so definitely with the import duty we have in India the discount which was generally available on the Indian cotton has come down as of now. So our cotton is becoming more expensive because the imports cannot be done openly so that is why the prices have gone up for the Indian cotton prices.

Niraj Mansingka: Okay so do you see the import duty changes which may come in in future we will have a slowdown in the way we are buying cotton from the market today do you think it will have an impact on that.

Company Speaker: If the import duty comes down I think the only difference would be whatever parity India used to have with USA that will be restored. As of now it has gone higher than the increase in the international prices. So that is where this concern for the spinners yarn, but once the duty is not there the normal equation will prevail because then people will have the opportunity to buy from outside in case the Indian pricing goes beyond a particular price.

Niraj Mansingka: Okay. Thank you very much.

Moderator: Thank you. The next question is from the line of Surabhi Saraogi from SMIFS Capital Limited. Please go ahead.

Surabhi Saraogi: Sir my question is with regard to the increase in cotton prices. So I just wanted to know if you have taken any price hike in the current quarter in response to the increase in cotton prices and if yes then how much.

Company Speaker: Yes price hikes are happening so as I mentioned since the pricing are increasing we are also trying to pass on the same to the customer.

Surabhi Saraogi: And sir are there any plans of further price hike.

Company Speaker: No it is not a question we do not have a monopoly I think the price hike can happen every spinner we tried in the entire world so depending upon the cost push and the demand everyone is trying to do that but whether we can get or not depends on the demand supply situation.

Surabhi Saraogi: Okay that is all from my side. Thank you.

Moderator: Thank you. The next question is from the line of Abhishek Kumar Jhunjunwala from M Capital Services. Please go ahead.



Vardhman Textiles
January 24, 2022

Abhishek Jhunjunwala: I wanted to ask like in the EPS the consolidated EPS is much lower than the standalone EPS what is the reason for the same.

Company Speaker: So there has been a dividend which we have received from our subsidiary companies in the consolidation the dividend is not that gets negative.

Abhishek Jhunjunwala: And secondly I wanted to understand like due to high cotton prices what is the forward inventory policy that the company is looking forward to.

Company Speaker: We have not decided as of now whether we will launched it but surely these prices are very high we might not cover the full season it looks like as of now but I think we are looking at it on a very careful basis and we will decide in next one to two months how should we go on this because prices are one of the highest and if we hold the inventory for next nine months it could definitely be a big concern as well so we are looking at it very, very carefully and I think it is only next two months depending upon the arrival and import duties or the other data we will have to take a view on that.

Abhishek Jhunjunwala: And will hedging help in this particular scenario of high prices and hedging on international cotton exchanges.

Company Speaker: We have done it partially to cover the risk, but at the same time some risk has been taken on our books also since we have to cover it we might look at hedging it as well.

Abhishek Jhunjunwala: And one more thing like the Government of India has got in the PLI scheme so is Vardhman going to benefit or take any advantage of the PLI scheme.

Company Speaker: That is 100% polyester based or the mandate based fiber so as of now we have no plans to go in for that.

Abhishek Jhunjunwala: Thank you.

Moderator: Thank you. The next question is from the line of Sunita Nawani from Citi Bank. Please go ahead.

Sunita Nawani: Sir my question is that if you can give an outlook on cotton prices, what is the mix in India.

Company Speaker: It is very difficult for Indian prices to be predicted because it all depends upon how the near future will remain. So that is anyone's guess whether this will sustain or will increase or will come down. The Indian prices are generally determined by the international prices because what prices the export can happen or import can happen. So by and large the national prices are determined or aligned to the international market and taking a view on near future whether they will go down or will go up it is anyone's guess.



Vardhman Textiles
January 24, 2022

- Sunita Nawani:** And sir what do you think is it to happen just first on this what was the **audio cut 27:26**.
- Company Speaker:** There is no direct impact as such though there are some of the markets in India which are there. There is a night curfew or some activities less but by and large on the business side at least the buying has been a little slowdown in India but not really a very significant difference because everyone is adequately sold in India and since the impact the fatality rate is much less to me it looks like it is not going to really have a huge issue even for the Indian market, international in any case it has no impact.
- Moderator:** Thank you. The next question is from the line of Bharat Sheth from Quest Investment Advisors. Please go ahead.
- Bharat Sheth:** Hi! Good afternoon Sir. I have only one question since our power cost is very high what are the measure are we talking to reduce power cost some kind of, I mean, our own power generating or any if you can give some color.
- Company Speaker:** So we already have our own power units which are almost to the range about 50 megawatts this is a thermal based coal, but in any case since the cost of coal has increased in a big way so we have stopped one of our power plant as of now and the other one also is utilizing at a lower capacity and we have started drawing it from the electricity board which is making more sense commercially as of now and in addition to that, we have gone for a small capacity of maybe 15, 20 megawatts as of now for the solar also and we are looking at those options as well but our own plant there are no plans to go for a further expansion of our own captive plants.
- Bharat Sheth:** Thank you very much, Sir.
- Moderator:** Thank you. The next question is from the line of Krishna Kumar from Linear Capital. Please go ahead.
- Krishna Kumar:** Good evening, Sir. Sir my question is there is a clear increase in terms of production and sales vis-à-vis the second quarter some 36 million to 44 million. So any reason for that is it because of cost is stabilizing or a demand kind of situation.
- Company Speaker:** Sorry what is your question.
- Krishna Kumar:** In terms of gray fabric to process fabric conversion and sales if you compare second quarter to third quarter there has been a substantial increase in process fabric production and sales so is there any strategic shift or is it just that any process based.
- Company Speaker:** No, the process capacity was being underutilized because there was no demand and as I mentioned during this period since the offices were opening and things were becoming better so



Vardhman Textiles
January 24, 2022

we started utilizing a better capacity utilization on the processing side and gray is basically we want to sell gray only if the processing demand is not there. So if we are in a position to utilize the process that is the first opportunity or the first choice we have so that is what has happened in this quarter.

Krishna Kumar: So do you disclose margins in the fabric and spinning but is it right to understand that the industry is going through lower spreads on the fabric side vis-à-vis the spinning sides is it the correct understanding.

Company Speaker: Yes, that is true.

Krishna Kumar: And is it improving as a trend now or are we still in a similar situation.

Company Speaker: No it is definitely improving because it is more related with the capacity utilizations also as your capacity utilization improves definitely your costs come down. So to that extent it is improving but otherwise if we think the margins are improving on a similar basis or on the same volume basis it may not be doing, but as we are utilizing more and more full capacity utilization, the costs are coming down so that is how the margins are improving.

Krishna Kumar: And as the management when you look at return ratios and payback is it good to add more spinning or fabric capacitors in the current cycle what is your reading.

Company Speaker: If you look at the immediate situation spinning may make more sense but definitely because as of now the spinning margins are too good because of the demand supply situation, but I think definitely if the fabric capacity is expanded at some stage for the company's margin it will definitely be better in the medium-term. Yes immediately spinning is making more sense, that is why we are allocating more capital to the spinning as of now.

Krishna Kumar: And in terms of export benefits that we sell there has been a weakening trend that you mentioned in the third quarter how is the market now and is there an improvement in the value of the benefits that you are selling in the fourth quarter what is the trend you have seen.

Company Speaker: Normally these the licenses which we are selling are in the range of about 75% to 80% as of now so I think that is what it continues so this is where we have taken a hit also and we have marked it on a mark-to-market basis to look at the current selling price rather than the book value of that.

Krishna Kumar: Lastly in terms of the capital expenditure you mentioned that you have tied up the spinning machinery etc. with the vendors could you just elaborate the reason sir you have stated very briefly so what are the issues why are you delaying the tie up with the vendors.



Vardhman Textiles
January 24, 2022

- Company Speaker:** Because they themselves are not very clear on the deliveries available, on the prices availability. So I think they also want to take a little more time before they can pick up with their vendors. So they have told us maybe they will take another two, three weeks to come back to us both on the delivery and the pricing front.
- Krishna Kumar:** So lastly sir on the logistics cost on the overseas is that impacting margins across the value chain.
- Company Speaker:** Not really, they are not impacting the margins, but yes it is a pain point as of now for the customer that the delays are happening, of course cost is also increased in a big way but at the same time that has also passed on to the customers as of now because it is all based upon the demand supply, the spinners are in a position to pass it on to the customers as of now.
- Krishna Kumar:** Okay, good. Thank you sir and wish you all the best, Sir.
- Moderator:** Thank you. The next question is from the line of Resham Jain from DSP Investment Managers. Please go ahead.
- Resham Jain:** Hi! Good evening Sir. Sir just a couple of bookkeeping questions first is what is the gross debt and the net debt we have as on the quarter end consolidated.
- Company Speaker:** The gross debt consolidated would be in the range of 2000 Crores quarter end.
- Resham Jain:** And net.
- Company Speaker:** Net would be maybe 1200 to 1300 Crores.
- Resham Jain:** Sir the second question is on the new Capex which we are doing, are we borrowing also for those new Capex's or are we using our internal accruals only for the new expansion.
- Company Speaker:** Typically our borrowing for any new project is 1:1 debt equity and we hope to continue with that particular ratio obviously it may change slightly depending on the ratio of machine cost to other expenses but typically it will range between 50%, 55% debt and the rest of equity and that is where we are.
- Resham Jain:** So just based on the typical cash flows and all, are you thinking about like a maximum level of cash or treasury you will be maintaining because with the current Capex announced, let us say over the next two years and the cash flows possibly your treasury may surpass your previous averages over last three, four years. So is there any strategic treasury decision which the board and the management has taken.



Vardhman Textiles
January 24, 2022

- Company Speaker:** There is no absolute value number that we have in mind, but we do have a benchmark that we follow internally to keep the kind of cash of course there may be short-term deviations basis sudden inflow or sudden influx of cash that we have seen over the last one, one and a half years but we know that the amount of cash on our balance sheet will impact various ratios on our return on equity and return on networth and we will make sure that cash does not exceed become disproportionately high compared to the rest of our cross block and other productive assets. But having a little cash or some cash on our balance sheet has been hugely beneficial for us because it helps us keep, it de-risks the volatile nature of the business model. So we intend to keep some but obviously not take it to a level that it becomes counterproductive to our return ratios.
- Resham Jain:** Understood and lastly one bookkeeping question what is the total inventory value as on December end closing inventory.
- Company Speaker:** Total inventory you are talking about raw material... as a whole it is a total 2500 Crores, 2400 Crores soemthing.
- Resham Jain:** Okay thanks Akshay, thank you Neeraj Sir. Thank you, all the best.
- Moderator:** Thank you. We will take the next question from the line of Rishab Shah from RS Capital. Please go ahead.
- Rishab Shah:** Thank you for the opportunity. Sir in the notes to accounts we have mentioned that there is some realization loss in e-scripts so can you just say is it cash loss or some nominal notional entry if you could explain at this point.
- Company Speaker:** No it is a nominal loss so we have done it on a mark-to-market basis.
- Rishab Shah:** So in the end we realize full amount whenever that happens.
- Company Speaker:** No we may not, so it is based upon the today's quotation whatever is delivered so that is what we have done it to make it mark-to-market but eventually if we go by the today's market that is what we are going to realize so the remaining loss we have already written of.
- Rishab Shah:** So normally how much percent loss do we have to face in this.
- Company Speaker:** Almost in the range of about 20% to 25%.
- Rishab Shah:** And this Capex what you were doing so everything is demand drive right, going forward whenever the Capex happens this all the capacity will be absorbed over times.
- Company Speaker:** We feel the same because it is a good demand that this why we are looking at this project.



Vardhman Textiles
January 24, 2022

- Rishab Shah:** And this extra spinning capacity is it so as value added yarn so it is the existing accounts what we are doing.
- Company Speaker:** No this will be for the existing accounts what we are doing.
- Rishab Shah:** So the margins would be same only, so there will not be any major impact.
- Company Speaker:** Should be.
- Rishab Shah:** Thank you.
- Moderator:** Thank you. The next question is from the line of Keshav Garg from CCIPL. Please go ahead.
- Keshav Garg:** Sir I wanted to understand that after the disruption and the relating lockdown COVID and supply chain. So there ought to be some restocking so is the high demand which is leading to increase in yarn prices are they related to that restocking or that restocking is already done and now this is steady state demand, which is leading to increase in the yarn prices.
- Company Speaker:** I think as of now it is all related with the demand only because the demand is good especially in the western part of the world. So that is where this demand is coming for more and more garmenting and that is where in the domestic market also the demand is good so the restocking is not happening now it is more of a pure demand and supply for the consumption.
- Keshav Garg:** Sir what I meant that I am not talking only about the restocking of yarn but also garments since all the inventory in retail...
- Company Speaker:** Yes, that is what I am also mentioning so all the garmenting picture which is happening today is going for the ultimate consumption only.
- Keshav Garg:** So that is very reassuring and also on the supply side now how much capacity in your estimate is stuck in bankruptcy proceedings and with these higher spreads now that might soon come on stream.
- Company Speaker:** You see whatever is the number of plants which are stuck up in the insolvency process now since the margins have been quite good in last one, one and a half years so whatever could have been restarted they have restarted and whatever could not be started till now it is going to be very, very difficult to restart that. So I think as of now India's capacity utilization whatever we are doing probably on the existing spindle it seems to be the best case scenario today, I am not likely to look at a more increase in the capacity utilization going forward with the existing spindles whatever new capacity comes in that comes in.



Vardhman Textiles
January 24, 2022

- Keshav Garg:** And finally so basically sir like you mentioned whatever had to start has already started so for now the only thing that remains is that for a new supplier to come on stream so how much time will it take like since you said that your vendors are also facing supply chain issues and anyway they are already booked. So in that case how soon can the supply come, significant supply comes so that the spreads can again go back to normal levels.
- Company Speaker:** The capacity, the disruption or the new business we are talking of is for the new plants which will be ordered today but the existing parts which would have been ordered let us say a year before or so that capacity our due in India almost we are getting almost 150000 to 200000 spindles every month.
- Keshav Garg:** Sir this new capacity you are saying that every month 2 lakh spindles are being added in India.
- Company Speaker:** Yes.
- Keshav Garg:** Sir so with this trend of a 2 lakh addition per month how soon do you think that supply will exceed or max demand.
- Company Speaker:** There are two factors to this one is that India adds 2 million spindles that is not really very big because at the same time the capacity utilization in China has been coming down in last many years so China is still the biggest spinner in the world and in case they shed some part of the spinning probably then for the entire world the increase may not happen significantly but because that is what is happening in last couple of years China spinning capacity has been coming down only.
- Keshav Garg:** Sir so despite these increase in spread still Chinese capacity is coming down.
- Company Speaker:** It can come down because that is a different reason there because 80% of the Chinese cotton comes from Xinjiang area and all USA and Europe taking a view that they will not buy anything which is coming from the Xinjiang cotton probably I think on the cotton spinning sector it could be difficult for them to get raw material and to that extent I think there could be concerns and issues on their spending capacity as far as 100% cotton is concerned.
- Keshav Garg:** So can they just import cotton and make yarn and again export.
- Company Speaker:** They can do that but I think going by their wages or the overall cost whether it will make them sense to going for the basic operations like spinning or they like to concentrate more on the value-added products.
- Keshav Garg:** Okay Sir, thank you very much, best of luck.



Vardhman Textiles
January 24, 2022

- Moderator:** Thank you. The next question is from the line of Amit Khetan from Laburnum Capital. Please go ahead.
- Amit Khetan:** Just one question from my side what would be our realized spread for the quarter and could you give some sense of I assume that some of the cotton that we used last quarter was from last year how much would that be roughly half, one third.
- Company Speaker:** We typically do not give out spread of individual businesses but it should be broadly maybe slightly better than the industry average and as far as cotton is concerned that we were carrying over from last season it can be in the range of maybe a third to half.
- Amit Khetan:** Got it, thank you.
- Moderator:** Thank you. The next question is from the line of Parin Gala from Sage One Investments. Please go ahead.
- Parin Gala:** Thank you. Good evening. Going by the numbers of production and sale that is given for the yarn especially for sequential and year-on-year is it safe to assume you are right now utilizing 100% capacity of the spindles.
- Company Speaker:** Yes we have been using 100% capacity of our spindles for quite some time now.
- Parin Gala:** So in that case your new 100000 spindles only come in September so safe to assume that whatever growth is coming in yarn is only price based instead of volume based.
- Company Speaker:** Yes, on the spinning side whatever increase is happening that have been primarily on account of prices only and on the fabric side actually the volume growth has happened.
- Parin Gala:** Okay Sir, sure thank you.
- Moderator:** Thank you. The next question is from the line of Hiten Boricha from Sequent Investment. Please go ahead.
- Hiten Boricha:** Sir most of my questions have been answered already. I have just one question you mentioned the spread number between cotton and yarn so can you help us with this again with current quarter and for last quarter as well what was it in Q2.
- Company Speaker:** So current spreads are easing around the \$1.20 mark plus minus 5 cents this is spot cotton to spot yarn prices last quarter also it would have been the average in the same ballpark maybe 5 cents higher.



Vardhman Textiles
January 24, 2022

- Hiten Boricha:** \$1.20 cents and what was it in last year Q3 FY2021.
- Company Speaker:** It would be around the dollar.
- Hiten Boricha:** Okay that is all from my side, Sir. Thank you.
- Moderator:** Thank you. The next question is from the line of Shradha Saraogi Garg from India Ratings & Research. Please go ahead.
- Shradha Saraogi Garg:** Thank you so much for the opportunity and very good evening to everyone. I just wanted to understand that recently the Ministry of Commerce had launched negotiations for free trade agreements with UK which is likely to boost exports for India. So is Vardhman also likely to benefit in terms of any boost that you are expecting in terms of your export dynamics to change after this FDA agreements with UK.
- Company Speaker:** The textile material to sell so as such the UK will not be buying any fabric or any yarn from us but UK will be buying more of our garments. So if India gets a preferential treatment or a better FDA with UK that is going to get advantage to our Indian garmenters and if the Indian garmenters has an advantage and they will be growing definitely our materials will be going to them. So indirectly we have a huge advantage but directly Vardhman will not be exporting anything to them, hardly exporting anything to them.
- Shradha Saraogi Garg:** And in terms of numbers like how much do you see the exports are likely to go up after this in case you can get some sense on that.
- Company Speaker:** It is not possible to estimate but definitely wherever the FDAs have happened any preferential country which gets I think it is a huge advantage which comes for the country, but to give it a number it would not be possible that how much substitution will be in a position to do from Bangladesh and to the other countries as far as the garmenting is coming.
- Shradha Saraogi Garg:** Right Sir. Thank you so much, that is all from my side.
- Moderator:** Thank you. The next question is from the line of Bajrang Bafna from Sunidhi Securities & Finance. Please go ahead.
- Bajrang Bafna:** Sir just the spread that you talked about \$1.2 which you managed last quarter so in the last quarter you were having some old stock also which you mentioned about half. So now you are working with this cotton of close to let us say Rs.70000, Rs.75000 per candy which is the current season so would that be safe to assume that this \$1.2 is still manageable in the month of January, February and March going by the current bookings and trends that you are seeing.



Vardhman Textiles
January 24, 2022

Company Speaker: Whenever we talk of the spreads we always talk of the spreads based upon the current cost of cotton and not what any spinning mill will be holding. So if a spinning mill has an older stock which is cheaper or expensive their margins or their spreads will be readjusted accordingly, this spread is always calculated based upon the current prices of yarn and the current prices of cotton.

Bajrang Bafna: So in last quarter since there was some old stock was existing so that is why I am just trying to understand that what could be our the spreads in this quarter considering that fact will that come down in terms of due to this particular reason since we are working with new cotton right now.

Company Speaker: The season is just started so the current spread will be is in the position of about 120 cents or so depending upon how the yarn prices readjusted to this increase which has happened recently that will depend upon these spreads so I have given you because the cotton prices have increased much sharper so I have given you the spread as of now but I think it will get readjusted based upon the prices maybe next couple of weeks.

Bajrang Bafna: And sir one more sense which we are getting from the ground research that this time because of the higher cotton prices and the arrival of cotton is also pretty less as compared to last year when we got almost 2 lakh and till date I think 140 lakh bales have only arrived in the market which is far lower so what sort of inventory that we built up vis-à-vis historical level and what is your sense going ahead.

Company Speaker: I have answered this question earlier also normally typically we try to cover most of our cotton by the end of April which is the end of season, but this time since the prices are too high we will have to redefine or re-look at whether we should really go for the full season or we should reduce our inventory. So as of now we have not taken a final view on that but I think next one to two months we will determine what kind of a cotton stocking policy we should have in this year. Two, on a physical cotton in case we require to build up a physical cotton whether how should we be headed by selling on the near future if we want to do that. Third, of course the arrival as of now is less but at the same time it is also because the farmer is bringing the crops slowly at the same time the crop seems to be reasonable so the season which normally ends in the month of April this year the market estimates can go up to June, July as well. Fourth, since the prices in India are much higher it looks like export what happen more than maybe 3 million bales or so which normally can happen up to 4.5 or 5 million bales so to that extent cotton will be available in India so we will have to take a view depending upon our commercial thoughts whether we should really carry everything on our balance sheet or we should look at if the cotton is available in India we can buy for maybe one or two or three months on a month-to-month basis rather than keeping it on our books so we have not taken any view on that but yes as the time passes we will take a final view on that.

Bajrang Bafna: Okay and currently we are having 2400 Crores of inventory that is the right if I heard it correct.



Vardhman Textiles
January 24, 2022

- Company Speaker:** Yes, that is the total inventory if we give the finished goods, etc. everything.
- Bajrang Bafna:** Got it. Thank you very much, Sir.
- Moderator:** Thank you. The next question is from the line of Shreyansi Nagar from Ventura Securities. Please go ahead.
- Shreyansi Nagar:** Good evening sir. You are mentioning that the demand is good recently, but with the 1st January 2022 there is an excise that would actually including readymade garment are having to levy 12% of the GST. So do not you think that will affect the sales or the revenue of the textile products in the upcoming quarter.
- Company Speaker:** No that decision for increase in GST was withhold by the government and we are under the same old regime as of now.
- Shreyansi Nagar:** Thank you so much Sir.
- Moderator:** Thank you. The next question is from the line of Pulkit Singhal from Dalmus Capital Management. Please go ahead.
- Pulkit Singhal:** Thank you for the opportunity. Sir, if you could just mention what are the current yarn and process fabric prices that you are witnessing versus what has been booked in 3Q how much what percentage higher is it right now.
- Company Speaker:** So the current prices of that is from the yarn on a China basis will be in the range of about \$4.85 or so.
- Pulkit Singhal:** And how much have you booked in 3Q, I mean, I am saying versus your realization in 3Q where our prices standing now how much higher is it.
- Company Speaker:** Sir we do not give out the prices of our individual products but whenever the cost spreads or anything we are talking about the market for a standard yarn product or a standard fabric product.
- Pulkit Singhal:** And so that percentage increase will be similar to what you also I mean around that range that you might also do.
- Company Speaker:** Sir of course the price of the same standard product but demand supply will come into play when it comes to value added products if the demand for the particular value added is lower or on the higher side the increase or decrease maybe higher than or lower than normal, but by and large it is tandem.



Vardhman Textiles
January 24, 2022

- Pulkit Singhal:** Right, so on the standard product itself I mean what percentage higher is the current yarn price versus what you call with the full quarter is what I am trying to understand.
- Company Speaker:** So, just a disclaimer that this data is compiled through various sources and there is no official data on this, but for example last December of the quarter 3 of last year we were in the range of \$3.20 to \$3.30 and today we are around the \$4.60, \$4.70.
- Pulkit Singhal:** This is December 2021.
- Company Speaker:** Yes, December 2020 was \$3.30 and December 2021 can be in the range of \$4.60 this is standard for every yarn.
- Pulkit Singhal:** And in terms of our capacity addition plan if the incremental addition is at around 2 lakh spindles every month and our addition is just 1 lakh coming in September do not you think we are adding at a much slower pace than what the industry is adding.
- Company Speaker:** Considering that India has about 50, 55 million spindles and Vardhman is 2% of the Indian industry and we are still adding close to 5% of the Indian industry addition so I think we are growing faster than the rest of the industry put together.
- Pulkit Singhal:** But there is a visibility on the 1.65 lakh, I mean, so 1 lakh we understand, that the 1.65 lakh.
- Company Speaker:** That 1 lakh we will add this year and we hope to add the balance 2 lakh in the two years after this month so I think we will be adding approximately a lakh a year. So by that approximate calculation I am computing.
- Pulkit Singhal:** So the revenues should flow in FY2024 for the addition after this 1 lakh or will it be FY2025.
- Company Speaker:** The full year impact would be felt in FY2025 partial might come in 2024 depending on delivery schedules.
- Pulkit Singhal:** And whatever you are indicating on spreads seems to suggest a compression in terms of the absolute values, I mean, this is \$1.25 understand it is based on current spot prices but then you had low cost inventory as well. So your 3Q numbers would have been much higher because of that low cost inventory and going ahead that will compress so does your absolute EBITDA come down as a result of that.
- Company Speaker:** No as explained that low cost inventory is a relative term if we bought cotton in the beginning of the season at 60, 65 and today it is 75 then we are already have low cost inventory for the next quarter as well. So it is difficult to extrapolate any trend and the margins basis that so we will have to see how it pans out if cotton prices continue to scale higher like they have the margins



Vardhman Textiles
January 24, 2022

may sustain but if they crash or they moderate considerably we may be looking at a different picture it is very difficult to forecast commodity prices and forecast margin based on that.

Pulkit Singhal: And your ability to pass on yarn prices I mean as you mentioned cotton prices are suddenly higher much higher than the increase in yarn. So how do you assert your own ability to pass on your price increase in the next two, three, four weeks.

Company Speaker: Somehow it is passed on fully going forward I cannot say but as of now I think to quite an extent it has been passed on.

Pulkit Singhal: Got it, thank you.

Moderator: Thank you. The next question is from the lien of Biplab Debbarma from Antique Stock Broking. Please go ahead.

Biplab Debbarma: Good evening everyone and just first is just wanted to understand whether I have understood what you said correctly, so spinning sector is seeing heightened demand because there is Xinjiang issue and as well as there is an increased captive consumption of yarn in Bangladesh and Vietnam am I correct is that the reason why we are saying this heightened demand for yarn.

Company Speaker: Yes those are two of the reasons.

Biplab Debbarma: Now two questions. First of all just trying to understand what would be the capacity utilization currently in the country any just rough numbers and because why I am asking is this how is the opportunity in outsourcing the capacity instead of putting high Capex if there would be some players who would not have that kind of balance sheet that we have so their capacity may not be fully utilized. So how is the capacity realization country wise and how is the opportunity in outsourcing the demand, the yarn demand.

Company Speaker: So I mentioned earlier also in our view whatever capacity can be workable I think people are in a position to utilize that beyond that the existing capacity may not be workable even if because the margins have been quite good in last two years so if it is not come on stream till now that means it is for sure it will not come in for on stream even if in times to come.

Biplab Debbarma: And my second question is on you have mentioned that Bangladesh is one of the largest, I mean, you export largely to Bangladesh but if Vardhman and country wise could you give us an insight on country wise which country percentage-wise we export the yarn and fabric and so if you could give some distribution of this exports of yarn and fabric country wise that will be great, Sir.

Company Speaker: So as of now I think the total yarn and fabric export which is happening from India almost 25%, 30% would be going to Bangladesh which is the biggest country as of now for the export of



Vardhman Textiles
January 24, 2022

Indian products and the remaining countries should be China, Vietnam, Sri Lanka, Central America, Latin America these would be the other major countries.

Biplab Debbarma: By Vardhman.

Company Speaker: I am talking about the India's exports.

Biplab Debbarma: Okay, I just wanted to understand what would be the Vardhman's distribution.

Company Speaker: We will also be in line with the trends of India.

Biplab Debbarma: Okay thank you sir. That is all from my side.

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

Resham Jain: Thank you sir for this opportunity. So just one observation from the market participants given the current cotton prices and all it seems that possibly in the upcoming season which will start from May, June we may see a significantly higher increases of cotton and typically by the end second of the season we typically see an increase in cotton prices but this year do you think that given that with an expectation of higher acreage and stuff like that actual prices may fall from the current levels.

Company Speaker: Yes there can be this scenario we cannot rule out actually it will start coming in somewhere in the month of March, April and the actual acreage we will be knowing by May, June that this is the increase which is happening on the a acreage side which should be good considering the kind of prices we are looking at both in USA and in India so we cannot rule out this possibility that people may try to hold less inventory in anticipation of a very good crop coming in the next year and the prices actually start going down from August, September there could be a possibility of this as well.

Resham Jain: Sir just one additional thing on this is typically when do you think market will start reacting based on your last many years of experience with this increase in acreage when do you think will people react in July, August kind of scenario when they will get more clarity or it can happen before that itself.

Company Speaker: Normally the intentions especially in USA start coming towards the, I think in the month of April etc. So that is the time where people can start looking at the intention but at the same time the physical availability or the physical challenges could be there and that is why the prices are much higher because the commodities are not in position to move freely because of supply chain issues



Vardhman Textiles
January 24, 2022

as well. So the local demand or the immediate demand could be one the intention could be two and going by the intentions I think by April those intentions start coming into the system.

Resham Jain: Got it Sir, this is very helpful. Thank you.

Moderator: Thank you. The next question is from the line of Parin Gala from Sage One Investments. Please go ahead.

Parin Gala: Sir very basic question typically what is the life cycle of a particular spindle I mean after installed when do you need to replace it.

Company Speaker: I mean normally 15 to 20 years is a comfortable life.

Parin Gala: So, Sir in your opinion when India is adding about 1.5 to 2 lakh spindles every month what would be your approximate estimate Sir how much goes into a replacement of old spindles and how many new comes so we are not leveraging with the new capacity what is the capacity.

Company Speaker: My belief is that the total supply in India will be close to about 250000 spindles and out of that about 500000 to 700000 will be going for replacement that is why we are talking of the net expansion of 1.5 lakh to 2 lakh spindles per month.

Parin Gala: Okay, got it sir. Thank you so much.

Moderator: Thank you. The next question is from the line of Gunjan Kabra from Niveshaay. Please go ahead.

Gunjan Kabra: Sir thank you for the opportunity. Sir one question which I had is that there is such high expansions happening in this spinning sector like the small spinners as well as the large spinners the existing spinners are expanding at a rapid scale and the expansions would come up online in next two to three years. So can you share what is driving such high expansion like will we not have any over supply kind of a situation after like three years or is it just spreads with our driving like high capacity expansion or the sector tailwind that we are seeing currently in last eight quarters that this is going to be a structural change like what is the percentage, your thought process of this.

Company Speaker: So as of now the biggest thought process is coming from this Xinjiang cotton issue where since the USA of the Europe will not be buying material from that site that means that opportunity will be available to the other parts of the world. So the only change in the basic thought process is coming from there and that is where everyone feels if the China leaves that segment even partially that is going to be a huge fight for the remaining part of the Asian countries to take even a part of that.



Vardhman Textiles
January 24, 2022

- Gunjan Kabra:** So that is the major idea behind right I mean that is the thought process. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Bajrang Bafna from Sunidhi Securities. Please go ahead.
- Bajrang Bafna:** Sir we are going to put up new capacity of if I heard it right 3 lakh spindles so by when we can expect this to come on stream.
- Company Speaker:** As we said 1 lakh spindles we expect to come online completely by this September which is September 2022 and on the balance 2 lakh we have less clarity, but we expect it in some time in 2024 depending on the delivery schedule.
- Bajrang Bafna:** And sir in the new PLI scheme which is being circulated by the government right now which is purely for manmade fiber and technical textiles are you seeing some investment in that category also because currently I think we are more or less concentrated on this side cotton and all so are we thinking to do some Capex on that side where the return on capital employed is expected to be better.
- Company Speaker:** At the moment we have no plans of expanding into the manmade fiber or the technical textile side we continue to monitor opportunity but at the moment no decisions have been made.
- Bajrang Bafna:** And what is your thought process in terms of this PLI and all how do you see that whether it will definitely create some bigger infrastructure for the country in terms of Mitra Parks and all what is your sense on the overall sector from that perspective.
- Company Speaker:** It should make sense both Mitra and PLI the only thing is how do people are going for the technical textile and as the countries develop as the per capita income improves the scope of technical textiles definitely improves in every country, which is growing so India from that perspective today the consumptions are miniscule and if we are in a position to grow continuously for next 10 years 15 years I am sure there will be a huge demand for the technical textile but as of now the demand is too less but at the same time these are the areas where with the growth these consumptions increases. So I am sure there could be a possibility for a country to grow better in these segments as well.
- Bajrang Bafna:** And Sir just one humble request you could say from my side or maybe from the analyst community side. To my mind for the first time maybe in last 20 years of my career I am seeing this kind of structural change that is happening in the Indian textiles where the government has come up with so many shops and the situation is completely changing from China perspective also so we are seeing the huge rebating which is happening for the sector but somehow Vardhman is not able to keep pace with this, still on the historical numbers we are trading at six



Vardhman Textiles
January 24, 2022

times with the EBITDA multiple whereas your closest competitor KPR is moving towards almost 25x on three years forward earnings and we are just at 10x and this is precisely I just want to highlight that if you could give us more clarity in terms of where our ROEs are going to be and in which segment we are going to move up in terms of vertical integration and I think some clarity on that emerges I think we are also headed for that kind of rerating which is still not happening for us so it is just a humble suggestion and you could consider it as a suggestion from my side so if you could do something on this vertical integration side to take advantage of complete value chain will be really helpful for analyst community to give this kind of relating to you also because you are the second player to whom we can look at when the government is talking about making global champions in our country so it is just a humble submission and we will be happy to hear some future statements may not be in this call but maybe going ahead in couple of other calls if you guide us in that sense will be really helpful sir.

Company Speaker: So we will definitely put up to the management thank you for your suggestion.

Moderator: Thank you. The next question is from the line of Parin Gala from Sage One Investments. Please go ahead.

Parin Gala: Thank you once again. Sir just want to understand in your opinion this Xinjiang ban which has happened on cotton sir how powerful it is to be implemented I mean how is it not easy for garment does anybody procure some and there is a middle man in between from some other region and then he supplies to the actual guys where the foreign players back from them you think that this is actually getting enforced in the true spirit.

Company Speaker: It will to quite some extent for a simple reason because the Chinese cotton whatever they produce 80% comes from that area only had it been a 20%, 30% then your question would have been more valid that how they are going to monitor it since the biggest cotton hub is Xinjiang only so it is going to be very difficult for the Chinese garmenters or the fabric manufacturers to really manipulate on that, some manipulation may still happen but I think the kind of penalties, the kind of stringency which the US or the Europe will be putting in it is definitely a bigger concern for all the big exporters from China and whether they really like to go in for that or not so to my mind I think this fear is definitely there in the mind of good exporters from China as of now.

Parin Gala: Okay, thank you so much once again.

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

Company Speaker: Thank you very much and it has been a pleasure to have all of you on the call and from the management side we have always been saying whatever are the opportunities or the best options



Vardhman Textiles
January 24, 2022

available to us we are looking at that. Business is becoming more and more dynamic and within that I think lots of opportunities also lots of issues and concerns also. So we are very, very vigilant on all the opportunities and concerns and definitely try to do the best which is best suitable for the company in the given situation and I am sure the numbers have been quite good and we will try to look at what more or what best could be done in the near future as well as the medium-term as well. The cotton prices are yes definitely one of the big concern but at the same time since the yarn prices are also supporting as of now so it is taking a dip but going forward one challenge would be what happens towards the end of the next season and how do we mitigate that risk which we are looking at it very cautiously. So thank you very much for all of you to show interest in us to continue to invest in us and I am sure going forward we will definitely be in a position to maintain the expectation which you all of you have come at. Thank you, good day.

Moderator:

Thank you. Ladies and gentlemen on behalf of Batliwala & Karani Securities India Private Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.