



“Vardhman Textiles Q3 FY17 Results Conference Call”

February 10, 2017



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Moderator: Ladies and gentlemen, good day and welcome to the Vardhman Textiles Q3 FY17 results conference call, hosted by IIFL Capital 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 the operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Avi Mehta from IIFL Capital Limited. Thank you and over to you Mr. Mehta.

Avi Mehta: Thank you Lizaan. Good afternoon everyone. On behalf of IIFL, I would like to welcome all of you to the 3Q FY17 Conference Call for Vardhman Textiles. From the company, we have with us the key senior management including Mr. Sachit Jain – Executive Director, Mr. Rajiv Thapar - CFO, Mr. I J Dhuria – Director (Materials). We also have Mr. Akshay Jain, IR with us. I would now like to hand over the call to the management for their opening comments. Over to you Sir!

Sachit Jain: Avi thanks. In addition we also have Mr. Karan Kamal Walia, Company Secretary and Mr. Neeraj Gupta, Head of Account of the Group. So, Ladies and gentlemen, thank you so much for showing interest in our company. The results have already been uploaded, so we would not go through the numbers. I will just share some broad outlines of what really be in the performance of this quarter and little bit about the outlook and then of course we will throw it open for question and answer.

One, in this quarter we have had conflicting factors at work, so one factor which would lead to performance going down was demonetization impact, which affected a part of our domestic sales, so export does not get affected, our domestic sales to garment exporters did not get affected and our domestic sale to the branded products did not get affected, but some of our domestic sale to domestic trade did get affected, but thankfully the impact was not too much, so that was the downward impact on our performance. The upward impact on the performance was there were some inventory gains because we had low price cotton available, so there were some gains in that because the cotton normally extends well into the third quarter. There was also some inventory spillover for the second quarter with the third quarter of fabrics, which is a normal thing it will be one quarter together that is why we do not go too much into this quarter versus the next quarter and so on. So these were the factors overall the positive seems to have acted more than the negatives and therefore the profits were up over the immediately preceding quarter. However, moving ahead as you are aware that though we have a bumper, we have very good cotton crop in the country this year, but this was also hit by the demonetization impact, so as you would recall we had a very low carryover stock, so mills were running very tight on cotton inventories and because of demonetization impact farmers were not ready to accept cheque payment and cash was not available, so till that time initially for some period there was a big shortage of cotton and cotton prices rose disproportionately higher. As they rose high, they continued to remain high for some other reasons because then the domestic cotton became more expensive than cotton



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available overseas and therefore people started shift into buying cotton and other markets, which led to a rise in New York futures, which led to the raise being sustained in the domestic market and middle men got in also, so all kind of speculated activities also come into play. As a result the cotton prices have remained much higher than what is normal at this point of the season. Now this is the unusual year for us and therefore our cotton buying strategies will be different from what is normal. We will have less stock than normal, so normally we say that on 31 March 2017 we have six to eight month stock of cotton, this year in all probabilities we will have less than six months stock of cotton and which means that the cotton buying will proceed well into the next financial year, also which means that we have gone a little bit more towards the imported cotton, which will come in later part of the year July, August etc., which means we will have imported cotton, but see on carrying cost, so those are all tactical stuff where the company is doing to make sure that the impact on us is not too much, so we expect fourth quarter performance will be lower than the third quarter and so what the first quarter of next year as things stand now unless there is a price correction. Yarn prices have moved up, but not commensurate to the cotton prices going up and therefore spreads on yarn, which is normally should be around \$1-\$1 plus is in the range of 90 cents or so. So clearly this is going to be a tough year for pure spinners, of course again Vardhman being a composite business with yarn and fabrics as well as value added yarn as well as blended yarn and so on, so the impact on us will be somewhat diluted, but yes we will still be lower margins and yes year as a whole we will remain within a range of 18%-22% EBITDA margin. There was an announcement there was a new item, which came out about Rs.1400 Crores expansion plan of Vardhman in Madhya Pradesh, so let me clarify on that, this was not a release from the company, this was a release, which came in from the Madhya Pradesh Government or some site would have picked it up from Madhya Pradesh Government approval. So Vardhman had applied for this project seven months ago, we have heard the approval has come, we do not have the formal approval in our hand as of now and once the approval come, we will put up the investment committee, so there is no decision taken as yet, but this project talked about two plans of spinning adding to 110,000 spindles, some weaving capacity and about 40 million meters of process fabric capacity, which would be the third line to be added in Budhni complex and of course some debottlenecking, some modernization and VORTEX spinning to come up in Satlapur. So that was the plan, which once the formal approval comes, we see the conditions of the incentive the government is okayed with us, discussed with the government, put up the investment committee, so it will still take sometime for us to act on that. In any case because of monsoons coming up in Madhya Pradesh you cannot begin its construction before the monsoon because you have to come out of the ground with the piling before the monsoons have begun, which is not possible anyway. So in any case even if the approval were here nothing would start before September that is regarding expansion. The other ongoing plan that we have Rs.1000 Crores, which has been announced two years ago is ongoing correctly, smoothly, all is going as per track. The plans of putting up a second line of process, printed fabric those discussions are going on, plans of putting up a yarn dyed fabric facility all for that Rs.1000 Crores already announced those are going on currently, machines have been discussed and things



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are on track as far as that expansion is concerned. This is all I would have to say at this point in time of course and thanks to the efforts of everybody, the buyback went out successfully and the promoters also participated to their full quota and this was a signal from our side that the extra cash that came in after the sale of our subsidiary Vardhman Yarns and Threads. We returned that cash and returned some more cash to do efficient capital allocation and not be a holder of cash. Of course the other question comes up again and again is what is Vardhman plans on acquisitions we remained my status remain the same that we remain up passive, we will be a passive aquarius, we are ready for an acquisition if and when the banks put with the screws on some of the companies, some companies we believe should be on the block and the more the government delays or the banks delay where assets are getting spoilt and banks are losing value, so some of those assets we do believe should come on the block soon once the pressure comes on the banks to get rid of these NPAs. So that is when that happens that will happen then. That is all I would report at this point in time. We would like to throw the forum open for questions, so we had Mr. Dhuria for raw materials, anybody who wants a raw material question he is available for answering those questions.

Moderator: Thank you. Ladies and gentlemen we will now begin the question and answer session. We will take the first question from the line of Sameer Gupta from India Infoline. Please go ahead.

Sameer Gupta: Good afternoon Sir. Thanks for taking my question. Could you just give a sense on what kind of cotton inflation we are seeing now that we have exhausted the entire low cost inventory that we had so what kind of cotton inflation are we seeing for the company per se in this quarter?

Sachit Jain: We do not share what was the company's inventory cost of cotton, but Mr. Dhuria will share that just now the cotton prices are around Rs.42,500 a candy from Shankar 6 and last year this stands about Rs.34,000.

I J Dhuria: Internationally also last year the average Cotlook index was 70 cents, this year it is likely to be average more than 80 cents a pound.

Sameer Gupta: What about the yarn spreads these have started to come off or these are also similar levels to the third quarter?

Sachit Jain: Yarn spreads are coming off now which is why we already said in my opening remarks that the margins of spinning in the fourth quarter will be lower than third quarter.

Sameer Gupta: Just one last question could you give guidance on the tax rate for the company going forward?

Rajiv Thapar: This will be around 30% or so.

Sameer Gupta: This quarter it is around 33 right?



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- Rajiv Thapar:** PBT or how you calculating it?
- Sameer Gupta:** Sorry Sir, fine. Thanks Sir that is all from my side.
- Moderator:** Thank you. We will take the next question from the line of Vipul Dalal from Vipul Dalal & Company. Please go ahead.
- Vipul Dalal:** Good afternoon gentlemen. Sachit fantastic numbers and just one question what keeps you awake at night given such a fantastic performance and your execution of our growth plans?
- Sachit Jain:** Vipul thanks for congratulating, which of course is meant for our entire team. Actually we got lucky, so I will not say this is really only performance base, which is why we had those cotton stocks at that point in time and as the cotton price rallied we were saved from what has hit the other spinning mills. Currently I think the only point of worry seems to be that the cotton prices in India are not following any normal trend, so this is absolutely abnormal that is the good crop and yet the prices are at this level, so clearly this year we will have margin pressures on pure cotton spinners, so that is clearly the problem. The second problem area that I see is that the rupee continues to remain stronger whereas all other currencies have weakened against the dollar and we have not depreciated at all for the last one year, so we are talking of almost Rs.72-Rs.75 is what the rupee should be is what people are saying I am not an expert, but we definitely need that to happen and third I think the government is getting its act together on how to boost apparel exports, but enough has not been done so far. So that is the area to get in garment exports because ultimately till garment exports pickup from the country the real job growth would not happen and creating the lower middle class of manufacturing worker, which then leads to first of course full employment and then leads to consumption for the cheaper FMCG and so on and the whole kick starting the economic growth to the consumption side that has to happen there, so government is getting its act together, but the realization is there in the government, but still that full flow of what to do to create more jobs in apparel sector that is what I would say the nutshell this is what would keep us awake.
- Vipul Dalal:** Thanks Sachit. You touched upon the government trying to get its act together because I believe there was a very intensive report done either by McKenzie or VCG, so that reports, so are they sort of taking action as you said based on that report?
- Sachit Jain:** I was heading the CII transports, which got to that report so I was fully involved in this and as a direct action of that the government for the first time recognized that the indirect taxes that the states add on textile manufacturing, which leads to cost and those need to be refunded and the government did add 3%-3.5% extra duty drawback, but they give it only to apparel, they did not give it to the apparel, and we said we are okay if they give it to tex to apparel that is good enough. So we believe that, that has definitely given a boost to the sentiment in the apparel



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exporters the impact of that hit in from 1 October 2017, so the impact of that was start happening now.

Vipul Dalal: Excellent. Thank you.

Moderator: Thank you. The next question is from the line of Avi Mehta from IIFL Capital Limited. Please go ahead.

Avi Mehta: If you could just give us a sense on the Indian cotton scenario a little more detail because if I heard you correctly you said that there has been a good crop, so there is a supply side pressure and demand continues to be moderate there has not been significant growth, but prices remain very high, so are you suggesting that prices will come off or if you could kind of share some light with numbers how is that?

Sachit Jain: One let me give my some comments on here then I will ask Mr. Dhuria to take on this. So clearly our belief is these cotton prices these levels those seems to be it is not a logical price, so the assumption that we had is something, which is not logical cannot remain sustain over a long period. If you recall then there is supernormal profits we were making because of China's cotton purchase price policy we have said even then that we are making good profit, but this is not sustainable and it will come off at some stage. So we believe that there is possibility of cotton price is coming off in the coming few months, which is why companies are having much less cotton than they normally do, but Mr. Dhuria will add to the demand supply situation.

I J Dhuria: For example, if you look at production side, the country is going to produce between 34.5-35 million bales against last year of 33.8. Last year the area was 11.8 million hectares we see and the area is 10.5 million hectares in spite of less area the country is going to have a better yield and better production, but against these production numbers the demand in the country if we look at the yarn production numbers of textile commissioner office this year the yarn production in the month of for example in November, December it is 10% less as compared to what it was in May, June. So we are expecting that there will be a less consumption of cotton against last year the consumption of which was about 32 million base, this year it is estimated to be around 29 million base and at the same time exports since our cotton prices are high and again the rupee is going strong in terms of US cents our prices are now today 82-83 cents a pound against the Cotlook index of around 84-85 cents a pound, so export is getting difficult, so country may not be able to achieve the target of 5 million base that we will be adding to the opening stock as on 1 October 2017 against last year 1 October 2016 by almost more than 2 million base so there is going to be substantial surplus and more over if we look at the July future global and the December future there is a substantial inverse, which is in the range of 300 points to 500 points, which has been getting the last three, four days. So we are expecting definitely the cotton prices will drop.



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- Avi Mehta:** When you say this in low resolution, can you explain what do you mean, July you will get 300-500 points lower?
- Sachit Jain:** The December future is lower than the July future.
- I J Dhuria:** There is a substantial inverse.
- Avi Mehta:** 3% or 5% you said?
- Sachit Jain:** Even next year the crop is expected to be good crop globally as well as in India and consumption will not increase as much in the next year again, the production of cotton will be higher than the consumption that we are adding to global stock and national stock.
- I J Dhuria:** Since the farmers in US, India everywhere in the world they have got the best price this year, the next year the area under cultivation is going to increase and there will be a substantial increase in production.
- Sachit Jain:** All these augurs well for the textile industry over a medium term.
- Avi Mehta:** Because cotton prices kind of remaining moderate in that sense?
- Sachit Jain:** Correct.
- Avi Mehta:** The second question is at 90 cents of spreads, how does the EBIT for yarn player kind of behave for a typical yarn player if you could share that and does that kind of mean that the industry could see closures or is there any pressure on the industry?
- Sachit Jain:** Pressure is clearly there which is why Mr. Dhuria said that November, December the production was lower by 10% compared to May, June, so there is clear pressure as far as spinning industry is concerned. All these factors will lead to a balancing coming out whether balancing happen in two months time or six months time it is difficult for us to predict at this point in time.
- Avi Mehta:** But would there be a sharp fall whenever that happens are you kind of suggesting I am not able to kind of because that is why I asked, is this a loss right now for an operating level or is this low margin?
- Sachit Jain:** There is no cash loss.
- Avi Mehta:** There is no cash loss yet, so it is just pressure on margins?
- Sachit Jain:** Pressure in margins that is right.



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- Avi Mehta:** I will come back in the queue for other questions.
- Moderator:** Thank you. We will take the next question from the line of Kush Gangar from Care Portfolio Managers. Please go ahead.
- Kush Gangar:** Congratulations for good numbers. These last two quarters of operating income has gone up substantially, can you tell us which sector has contributed to this?
- Sachit Jain:** One of the factor of course is because the government changes norm then we have to recognize our income and all the SMPs, so lot of it is interest income really and in fact just feedback has come from various other funds we have talked over the last couple of days, so from first quarter next year we will separate out the interest income, which is coming in to us and the real operating income, which is a sustainable on a recurring kind of operating income. So for this quarter about Rs.40 Crores or so is the interest income out of the Rs.56 Crores, Rs.43 Crores of interest income and there is some sale of old assets, so really the operating income, which you can take as a recurring basis about Rs.5 Crores-Rs.6 Crores and its interest is primarily income on the financial assets of the company.
- Kush Gangar:** Could you throw some light on the impact of transpacific agreement getting nullified by the US?
- Sachit Jain:** Overall long term it is abeyance, so one anyway the PPP was not going to have an immediate impact this would have played out over the next few years, but the nullifying of the PPP is a big positive for India because the huge advantage that Vietnam was going to get and then probably later Indonesia might have got those advantages are not going to accrue to them and therefore it will not place India at a disadvantage, so it is good for us.
- Kush Gangar:** Thank you, that is all from my side.
- Moderator:** Thank you. We will take the next question from the line of Nishant Agarwal from B&K Securities. Please go ahead.
- Nishant Agarwal:** First congrats to you for good set of numbers. My question is on the capex side, till yet how much of capex you have already done?
- Sachit Jain:** Out of this 1000 Crores capex plan announced..
- Rajeev Thapar:** About 200 Crores is to be incurred in the current year 2016-17 and rest will happen in the next year, so next year estimated capex would be in the range of Rs.450 Crores also.
- Nishant Agarwal:** It would be in the third year or in FY2019 also this Rs.1000 Crores capex?



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- Rajeev Thapar:** Actually out of Rs.1000 Crores some has already been incurred in 2015-16 because printing line happened in that year and some of the expenditure happened in 2015-16 itself.
- Nishant Agarwal:** How much was the amount in 2015-16?
- Rajeev Thapar:** 2015-2016 is at about Rs.300 Crores.
- Nishant Agarwal:** I want to know that is the printing capacity we have, it is the part of processing capacity or it is the separate capacity?
- Sachit Jain:** No, it is part of processing capacity, but it is a separate plant, so internally look it as a production line, it is a separate production line.
- Nishant Agarwal:** It is the value addition in the processing capacity or how to understand this?
- Sachit Jain:** It is another kind of process fabric.
- Nishant Agarwal:** It is not after processing capacity; it is not printing after processing capacity?
- Sachit Jain:** No, both kinds of printing happen, sometimes there could be printing over dyed fabric, so dye fabric is dyed and then over printed or normal grey fabric goes to normal processing rather than dying and you printed both things happen.
- Nishant Agarwal:** So how much is the value addition in this printing?
- Sachit Jain:** We do not share those kinds of figures separately.
- Nishant Agarwal:** The things I want to know that the asset turnover would be around from this Rs.600 Crores processing capacity?
- Sachit Jain:** Again very difficult to predict each one because Rs.600 Crores partly is going in for modernization replacement of assets and partly going in for new capacity enhancement, partly for debottlenecking, but roughly for textile assets is 1:1 is the asset turnover ratio and if this is a composite kind of a thing then it will be definitely much lower, but spinning plus fabric it will be much lower, fabric alone will be a little higher, spinning alone will be a little lower, so net about 0.821 depending on what is the configuration of the plant and machinery that you have and the product mix.
- Nishant Agarwal:** Is it possible to give some highlights on the GST impact you are expecting that because we are getting news that the GST may come on that cotton value chain and it came down man made fibre, so is it any impact on the cotton player?



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- Sachit Jain:** As of now what we understand is the GST rate likely for textile industry, we are seeing likely we do not know what is going to happen, it is going to be either 5% or 12% that is the current field across most players are saying that, some political leaders have also shared that, we do not know exactly what will happen, but we are convertors, so for us we are neutral to what happens, if it goes beyond 12% then we would be little concerned because then chances of evasion, etc. can start picking up again because still the whole channel not organized, but if it is 5% or 12% I do not think we are too much concerned except there could be the normal, which is too for every industry that when the GST is implemented there could be operational hiccups somewhere along the chain and some player or the other and the government and then so on, which could have some normal disruptions to business for couple of months or so those are things we cannot predict at this point in time.
- Nishant Agarwal:** Thank you very much.
- Moderator:** Thank you. We will take the next question from the line of Prerna Jhunjhunwala from B&K Securities. Please go ahead.
- Prerna Jhunjhunwala:** Congratulations on a good set of number Sir. I wanted to understand your strategy for the pace of capex, how fast you would like to increase your capacity expansion or how flow you want to go ahead with it and what is restricting you from adding new capacity at a very fast pace other players in industry are doing?
- Sachit Jain:** Vardhman is something where we are a slow cautious conservative company and this is something we have stated again and again, so this is something we will wait then when uncertainty is over around the horizon then we like to wait for uncertainty to clear out. Then let me say the current uncertainty that seem to be around. One was demonetisation of course that has not played out and from April onwards that should be okay. The second uncertainty coming out is GST what kind of disruption it has on business. Over a long term it is positive, but in the short term will there be disruption in the business has gone, and third is Mr. Trump's policies, he is becoming more protectionist about the US and make in USA and so on, so what is the impact those are likely to have either just stop or some actions are happening, we do not know just now and so if you can wait a couple of months you see more clarity on that and then move ahead more steadily that is the approach Vardhman has. Now many companies can grow very fast when the crash comes they also crash very fast. We are absolutely clear we are in no race if somebody gets ahead of us no problem, we will continue to grow at our own pace.
- Prerna Jhunjhunwala:** A follow out on this question do you see any demand-related uncertainties and second do you think Trump can have protectionist policy for textiles also like other sectors that he is currently doing?



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Sachit Jain: One big advantage Vardhman has is that we have a very strong domestic market also and we believe over the next years moving ahead domestic market is going to become more and more important. If you recall per capita consumption of fibre is around 5 kilos and whereas China is about 16 kilos-17 kilos, US is 32 kilos, etc., the world average is about 13 kilos-14 kilos, so there is a lot of scope for Indian domestic consumption per capita consumption go up, so that is one. Two, within the global market we have diversified across several markets, so we are not dependent only on the US and third you think that Sachit Jain sitting in Ludhiana can predict what Mr. Trump is going to do I would not even try to hazard a guess from here.

Prerna Jhunjunwala: I just wanted to know your thought Sir.

Sachit Jain: But I think that on the textile area it will be very difficult for them to be protective out there. Keep in mind one more thing that overall India is becoming more and more competitive in the area of textile manufacturing as the cost in China keep rising, so even if the protection happens somewhere else, something happen, India will have an advantage because India stronger company that built cost strength and value addition strength both will continue to have, so that is the focus we are having.

Prerna Jhunjunwala: Thank you so much.

Sachit Jain: The plant is easy.

Prerna Jhunjunwala: Thank you.

Moderator: Thank you. We will take the next question from the line of Arjun Sengar from Reliance Mutual Fund. Please go ahead.

Arjun Sengar: Good evening Sir. As far as your capex and NPA is concerned, I did not get what is the total amount budgeted for it?

Sachit Jain: About Rs.1400 Crores-Rs.1500 Crores.

Arjun Sengar: The benefit of this is likely to come somewhere towards the end of FY2019?

Sachit Jain: No, first of all we have not taken a decision on it. I said that in the opening remarks already. This is the proposal we had sent to the MP government from the newspapers and from informal sources we learnt that MP government has approved this project, we have not received the formal approval as yet. Once we receive the formal approval we will examine it, put it up to the investment committee, see what the government is giving us in terms of incentives and so on and then we will take a call on that. So there are some processes still waiting to happen before we are ready to announce that, so this leak or was it a leak or was it a newspaper report, which came out



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from a release from Madhya Pradesh government we do not know. This information has not come out from Vardhman side. We are only forced to respond when it was incorrectly stated the figures out there but totally incorrect, so we had to respond.

Arjun Sengar: But typically from the time of construction to the time of commissioning, how much time does it take?

Sachit Jain: Basically for a spinning mill, we take about a year to 15 months and for a process fabric it will take about 15 months to two years, weaving is also around a year 12 to 15 months, where I see for stabilization, so starting and stabilization of the plant.

Arjun Sengar: My next question is that what could be the source of growth for this company till FY2019 is there any source of growth?

Sachit Jain: One is of course their ongoing expansion, which is going on that our fabric capacity is going up from 110 million metres to 145-150 million metres so that is already ongoing, so that is going to be the main growth for the company as of now.

Arjun Sengar: In last call I think you said that part of this had got delayed by a quarter or two?

Sachit Jain: Again Vardhman does not track every quarter, but may be a quarter have got delayed a bit.

Arjun Sengar: I could not get your margin guidance Sir? What was the margin guidance?

Sachit Jain: Margin guidance that we still expect our margins will be 18%-24% for the year and if it goes beyond 22% then those are abnormal performance that we are getting from advantages we are getting.

Arjun Sengar: Fine thanks.

Moderator: Thank you. The next question is from the line of Kush Gangar from Care Portfolio Managers. Please go ahead.

Kush Gangar: This is Vardhman acrylics result was impacted due to demonetisation, whether the situation got normal again in that front part?

Sachit Jain: Partly demonetisation, but partly also demand had gone down, both reasons.

Kush Gangar: Thank you.

Moderator: Thank you. The next question is from the line of Sameer Gupta from India Infoline. Please go ahead.



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- Sameer Gupta:** Thanks again for taking the question. Just wanted to dwell on a little bit more about your capex for FY2018 you said Rs.450 Crores, so what kind of asset turn should we expect from this, should not it be a little more than one x, because it could be more towards the fabric side and debottlenecking?
- Sachit Jain:** No, but once this fabric goes up then somehow yarns will go down also.
- Sameer Gupta:** But in general fabric asset turn should be higher right?
- Sachit Jain:** Yes, the asset turns are higher if you are buying the yarn from outside. If yarn is consumed from within, the yarn sales will go down and fabric sales will go up.
- Sameer Gupta:** Got it, so you will be manufacturing...
- Sachit Jain:** Net value addition will go up.
- Sameer Gupta:** We should expect around one x only for FY2019?
- Sachit Jain:** Yes. It is very difficult to predict exactly what happens because the prices also move up and down. You have to look at general ballpark only that was the only thing you look at.
- Sameer Gupta:** Could you give a sense of the net debt number Sir?
- Sachit Jain:** The net debt equity will be around 0.35-0.4 around that on 31 March 2017.
- Sameer Gupta:** Any guidance on your acrylic business?
- Sachit Jain:** No guidance, it will remain we expect the operating profit will be between Rs.30 Crores to Rs.50 Crores.
- Sameer Gupta:** Thank you, that is all from my side.
- Moderator:** Thank you. We will take the next question from the line of Arjun Sengar from Reliance Mutual Fund. Please go ahead.
- Arjun Sengar:** Just one more question. I just wanted to understand how has the impact of demonetisation been on the synthetic yarn side?
- Sachit Jain:** It was pretty tough initially because acrylic that we produced was the domestic market wholesale segment, which unfortunately runs mostly on cash. So that got hit very badly, luckily for us the winter turnout to be very harsh in Ludhiana in North and therefore the weather condition may



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have shown the demand came back and therefore we were not as badly affected as we were earlier expecting.

Arjun Sengar: The condition was similar even in the industry as a whole on the synthetic side?

Sachit Jain: Yes.

Arjun Sengar: Okay.

Sachit Jain: I am talking about acrylic.

Arjun Sengar: No, I am just talking about broadly.

Sachit Jain: Broadly we do not track the other segments of PV and so I do not know about that.

Arjun Sengar: In your domestic sales how significant are your sales to traders?

Sachit Jain: Very little. As far as yarn is concerned and as far as fabric is concerned may be about 20%. Our domestic sales are about 35%, so it will be about around 20%-25%.

Arjun Sengar: Of the domestic sales?

Sachit Jain: No, of the total fabric sales, our total fabric sale about 20% would be to traders, this goes into smaller brands. There are more distributors and traders really.

Arjun Sengar: Fine, that is it. Thanks.

Moderator: Thank you. The next question is from the line of Avi Mehta. Please go ahead.

Avi Mehta: Sir now the cash levels had come off after the buyback, have you still retain cash for the cotton buyers because your net debt suggest that do you either have a lot of cash or debt levels have come off?

Sachit Jain: No, we have a lot of cash available to buy any cotton I mean Vardhman will always that is the first priority. So, there is no problem of cash availability in fact if the cotton purchase is going to be lower that equity may actually be lower than what we are talking about now.

Avi Mehta: I got it and this standalone net debt that you are talking about right Sir? This is standalone, it is not consolidated?

Sachit Jain: Standalone, yes.



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- Avi Mehta:** Fair enough. Thank you very much.
- Moderator:** Thank you. We will take the next question from the line of Manu Seghal an Individual Investor. Please go ahead.
- Manu Seghal:** Sir I just want to ask a question about your steel business that is Vardhman special steel. The status of the incentive from the Government of Punjab?
- Sachit Jain:** We have got the approval from the government, we have signed the agreement with the government, but the government has to appoint an agency through inspect the assets and the invoices, so that part was pending then the code of conduct came in.
- Manu Seghal:** Any guidance about the margin Sir? Profitability margin in this business?
- Sachit Jain:** We have not reach a stage to start giving guidance there, but we believe EBITDA per tonne should be in the range of Rs.4000-Rs.6000 a tonne, currently I think it is around Rs.5200, it should fluctuate between these two numbers. We will come up with better prepare next time.
- Manu Seghal:** Thank you.
- Moderator:** Thank you. As there are no further questions I would now like to hand the conference over to the management for their closing comments.
- Sachit Jain:** Ladies and gentlemen thank you so much for being on the call and I repeat what we have been talking about again and again. Vardhman is the company only for long-term investors. If you are in the company for a short-term you might burn your hands and fingers and probably more even your hair, so just be careful and of course we remain a conservative cautious company that is the way we are. We stayed 50 years and hopefully we will stay another 50 years. Thank you so much. Regards.
- Moderator:** Thank you. Ladies and gentlemen on behalf of IIFL Capital Limited that concludes today's conference. Thank you for joining us. You may now disconnect your lines.