



Vardhman

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VARDHMAN TEXTILES LIMITED

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Ref. VTL:SCY:NOV:2024-25

Dated: 06-Nov-2024

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**SUB: TRANSCRIPT OF EARNINGS CONFERENCE CALL OF VARDHMAN
TEXTILES LIMITED – Q2 FY25**

Sir,

Pursuant to the provisions of Regulation 30 read with Part A of Schedule III of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed herewith transcript of the earnings conference call of the Company held on 4th November, 2024 to discuss Q2 FY25 results.

Kindly take the same on record.

Thanking you,

Yours faithfully,
FOR VARDHMAN TEXTILES LIMITED

(SANJAY GUPTA)
COMPANY SECRETARY

YARNS | FABRICS | GARMENTS | THREADS | FIBRES | STEELS



“Vardhman Textiles Limited Q2 FY25 Post Results Earnings Conference Call”

November 04, 2024



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

MODERATOR: **MR. ROSHAN NAIR – BATLIVALA & KARANI
SECURITIES INDIA PRIVATE LIMITED**



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Moderator: Ladies and gentlemen, good day, and welcome to the Vardhman Textiles Limited Q2 FY25 Post Results Earnings Conference Call hosted by Batlivala & Karani Securities India Private Limited.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” and then “0” on your touchtone phone. Please note that this conference call is being recorded.

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

Roshan Nair: Thank you. Good evening, everyone and welcome to Q2 FY25 Earnings Conference Call of Vardhman Textiles Limited.

On behalf of B&K Securities, I welcome all the participants and Management of Vardhman Textile Limited to the call.

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

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

Neeraj Jain: Good afternoon everyone.

First of all, welcome to the September end call. The period under review continues to be challenging for the Company.

We started the quarter where the New York Future was much better, almost in the range of 85 cents and slowly it came down to 67, 68 US cents also. And today also it's hovering about 70, 72 US cents. Whenever the New York Future is higher, generally the international yarn prices will get adjusted to that and accordingly the Indian spinners will also be selling their products both internationally as well as domestically. But the New York Future kept coming down, as a result of that, yarn prices also came down over a period of last three to four months and I think today are definitely much lower than when we started the quarter.

The Indian spinning industry continuously passing through two difficult issues. On one hand, we have a resolution of minimum support price by which the government of India is to support the farmers and the CCI did big operations last year. They were selling cotton after buying it from the market later on to the spinners.



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Going by the minimum support price and today's prices and the realizations, etc., the Indian prices will not be less than 84-85 US cents in India. Whereas with the New York Future of about 71-72 US cents, even the American cotton which is far better in terms of quality will be available to the Vietnamese or to the Indonesians in the range of about 84-85 US cents only.

Just on one hand, the Indian cotton is comparable to the international cotton, which is definitely the Indian cotton is definitely because of contamination is much inferior. Second, we can't import also cotton because there is a duty of 11% on the import of cotton. As a result of that, we got to buy it even under advanced license, the cost will be about 4%-4.5% and you want to use it for the domestic consumption, it will be 11% duty. As a result of that, the import possibility is much less or is much extensive, and MSP also is a concern in terms of the availability of cotton in the international competitive prices. So, in terms of the operation, in terms of sales, I think Company is doing reasonably well. At the same time, I think raw material cost is almost 60% of our tool cost is definitely one of the big concerns for us.

The fabric side, the Company continued to do good because all the changes which have happened where more and more brands are coming in, and the Company strategy for better products, for new range etc., Company's done very well in this period on the fabric sales side and the margins also. And we are now running at almost full capacity utilization for most of the products, which include printing, which includes yarn dyed, which includes ----- (inaudible) etc. And probably the results which you have seen, I think major contribution is coming from the fabric side as of now. And as a result of that, the overall results are quite good in this period.

Coming back again to spinning to some extent, I think this has been a period because of these challenges, we understand lots of spinning in India has got stopped also in the last two years' time. As per the industry estimates, it is estimated almost 6 million spindles have stopped permanently, more than 6 million, and maybe another 3 million spindles are running on job or on a marginal basis, which may or may not continue for a long period of time unless the situation improves.

In terms of overall demand in the world, I think by and large the demand is okay now. Of course, since there are some issues and the third challenge which has started coming in from the sustainable fibers. Most of the Western world started talking of some amount of recycling or the uses of the used garments. So, I think to some extent, it's very difficult to estimate as of now the numbers, but it can be believed recently there will be some demand which will get reduced because the older garments are being resold at most of the stores in Europe and the USA rather than sustainability. So, to that extent, I think the growth which was earlier coming in may not continue as of now. Take the time, the first recycling cycle gets completely.

On the expansion and modernization side, companies, whatever the plans that they have taken, I think so by and large, all those plans in terms of implementation, both on the spinning as well as the fabric side, we are by and large in track. In terms of our cost optimization, lots of initiatives



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have been taken by the companies. They are all on track. In terms of customer, new products, value added products, whatever we can do, there is a great effort which is going on and the customer definitely is improving both the business of the Company. So, the next season of cotton has started. The arrival has just started as of now. The arrival pickup will happen maybe next week and so and then we will have to look at how does the CCI operates and what kind of challenges or what kind of difficulties they find in procuring the cotton at trade price. But I think it's only next 1-1.5 months is going to be more critical in terms of the strategy to be decided by CCI, the amount of procurement they do and what kind of arrival starts in the market so that whether they are in a position to buy cotton or they will continue to buy hand-to-mouth and they will rely more on CCI. And next 1.5-2 months is more critical from that perspective. It is one of the major components of our cost and it definitely determines the profitability of the business for the next couple of months. I will initially stop my discussions on this.

I think we can start with the Q&A and then the remaining queries can be addressed in Q&A also.

Moderator: Thank you very much sir. We will now begin the question-and-answer session. Our first question is from the line of Falguni Dutta from Mansarovar Financial. Please go ahead.

Falguni Dutta: And sir, I had a question. Why is the consolidated number lower than standalone this quarter?

Neeraj Jain: We got dividend from some of our associated companies and subsidiaries which got knocked off while calculating the consolidated figures.

Falguni Dutta: And sir, if you could, because the voice wasn't coming clear, I didn't clearly understand how the cotton situation when you were explaining vis-à-vis the international cotton prices?

Neeraj Jain: So, I'll cover that part once again. So, international prices today are, New York Future, is at about 71-72 US cents and generally American cotton is available to the spinner in the range of about 1,200 to 1,300 business for the New York Future. So, that means the cotton will be available to any spinner in the world in the range of about 83, 84 US cents per pound. The Indian cotton as of now whatever is the price available in India is almost 84, 85 US cents Indian cotton. Indian cotton definitely is inferior to US cotton in terms of contamination, etc., and generally it is at a discount of 6 to 7 US cents compared to the American cotton. Since our costs are equal with the interior cotton, that's why we have this disadvantage of 6, 7 US cents per pound in India. And also, since there is 11% duty on import of cotton also from outside, as a result of that, our raw material costs or prices are today much higher than most part of the world as of now.

Falguni Dutta: And then how are the cotton yarns spread? I don't know if you covered that. How are they in Q2 versus Q1 and how are they now and if any outlook you can provide?

Neeraj Jain: The first quarter, almost the stress was in the range of about 75-80 US cents, which now has come down to about 60 US cents.



Falguni Dutta: And outlook would be difficult to give right given that we will have to see how the cotton arrivals are and all?

Neeraj Jain: There are only two ----- (inaudible) available in this. One, the New York Future goes up so that our cotton is comparable to the world market. In that scenario, the spread can increase. Or else, government takes any decision either in terms of removing the duty or allowing the CCI to preserve cotton and sell it at the normal markup over New York Future which has been historic prices in India. If these two things doesn't happen, then in that case, there doesn't seem to be any reason where the market will improve as of now. Unless the yarn demand improves in a big way, which also is not looking possible as of now.

Moderator: Thank you. Our next question is from line of Rajesh Jain from RK Capital. Please go ahead.

Rajesh Jain: If I look at your financials 7-8 years ago, even 10 years ago, you used to operate at 20% margins and the profitability that you are touching now is the same profitability that you were at 10 years ago. So, while your revenue has grown over the last 10 years, but the net profit of the PAT is at the same level because of the lower margins of 13% to 14% in the last 4-5 years. So, is this the new normal, the 13% to 14% EBITDA margin, is it the new normal margin now?

Neeraj Jain: Considering the limitations that the industry has been given is what the two major factors of the cotton type, I think this is going to be new norm only. Because earlier, as I mentioned, our cotton prices will, if you look at last 20 years, history will always be about 4 cents, 5 cents over New York Future which used to give us the right margins. Today, we are 1,200 to 1,400 basis over New York future. So, our constant increase is big way in India whereas the yarn rates will get adjusted, will get determined only by way of whatever Vietnamese or Indonesian is selling today or Uzbekistan is selling in the market today. As a result of that, the yarn business has got a big hit in this period and your observation is right till the time there is any fundamental change done by the government, I mean this industry will be, the margins will not improve.

Rajesh Jain: Can you throw some light on the Bangladesh situation because my understanding is that you do a lot of exports to Bangladesh. So, how was the demand impacted and for the brief time that the demand was impacted, did you get replacement demand from India yarn buyers? Can you throw some light on that?

Neeraj Jain: Bangladesh is one of the biggest exporters after China as of now to the world markets. There has been some disruption for a small period of time, but at the same time, from our Company's perspective, there was no reduction in the demand and we continue to sell in Bangladesh almost same volume which we were doing earlier also. I understand the situation now is far better and except for a small number of mills, everyone is running at a full capacity once again, so there is also no concern. In between, when this situation was a little disturbed there, there were some orders which got diverted to the Indian garmenters. But unfortunately, India doesn't have that kind of a capacity which Bangladesh is opting today. Bangladesh is doing almost \$35 billion of



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exports as of now in the garmenting whereas India is doing only \$14 or \$15 billion. So, even if the orders are diverted to India, it has not been a decision to take those orders, for sure, as of now. But in any case, I think the situation as of now looks quite normal from the spinning and fabric which we are supplying to them and there doesn't seem to be any major issue as of now.

Rajesh Jain: Okay, so considering the cotton inventory that you have now, and you said that the yarn prices have trended down even lower now compared to the beginning of the quarter, do you foresee the upcoming quarters to be lower compared to this Q2?

Neeraj Jain: Very difficult, just the starting of the quarter is very difficult for me to comment on that. But whatever inventory of cotton we have, first of all, that inventory is also exhausted and we have to start buying the new cotton or we have already started buying the new cotton. So, it all depends upon the yarn, even if the New York Future increases over 500 basis points, immediately the yarn demand starts coming in at a better price also. So, it is very, very speculative as of now to say the margins will be lower or higher. But definitely, considering the yarn prices which were there in the first quarter or even in the first part of the second quarter, the prices today are definitely lower. As I mentioned, today the spread will not be more than 60 US cents for the Indian spinners.

Moderator: Thank you. Our next question is from the line of Anik Mitra from Finnomics. Please go ahead.

Anik Mitra: Sir, due to poor audio quality, I could not get a few points. I wanted to listen to it once again. Sir, this question is repetitive in nature. So, sir, can you tell me what is the spread you mentioned, yarn and cotton spread at this point in time?

Neeraj Jain: 60 US cents.

Anik Mitra: US cotton and Indian cotton trade at this point in time.

Neeraj Jain: US cotton is available at about 1200 on or 1300 on over New York future. Indian cotton is also available at 1300 on over New York future as of now. So, the price of Indian cotton and US cotton is almost comparable as of now.

Anik Mitra: Almost comparable. And sir, what is the yarn per Kg at this point in time? If it is 30 count?

Neeraj Jain: So, it will be in the range of about \$3 as of now.

Moderator: Thank you. Our next question is from the line of Awanish Chandra from SMIFS. Please go ahead.

Awanish Chandra: Congratulations management on good profitability numbers. Sir, my questions are already connected with what we have discussed. So, first thing, sir, cotton season already has started.



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So, I just wanted to have a complete picture. How do you see arrival happening and what is your view on overall this season? What will be the expected pricing and what amount of cotton inventory you want to create considering all the situation you have talked about?

Neeraj Jain:

So, the season has just started a few days back. And in fact, during the Diwali period, most of the yarns are stopped or closed. So, it will start in the next 2 to 3 days only. The arrival today is in the range of about 60,000 to 80,000 bales per day. And we expect it to go to 100,000 bales in the next 2-3 days itself. It is just starting of the season, the overall drop seems to be in the range of about 30 million bales because there is some drop in the area and maybe there is some reduction of overall quantity because of the excessive rain which happened towards the fag end of the cotton harvesting period. Having said that, what will be the crisis or what could be the stopping policies, very very difficult for me to say as of now. It all depends upon the commercial as well as the pricing. So, we have just started buying the cotton and it may not be possible for me to give an indication as of now because it all depends upon our thoughts about what will be the future prices and the international pricing of cotton, the demand side. We will keep taking that view. That's why I mentioned that the next 2 months are going to be very, very critical or important for us to decide. And we are debating it on a daily basis. But I think soon the season has just started. We may not be in a position to give you any indication or idea of what will be our talking policy as of now. By the time we will be discussing, the next quarterly call will be more clear on how the season is going as of now.

Awanish Chandra:

Sure, sir. And sir, second point, you also highlighted and most of the management so far in the conference highlighted the Bangladesh situation has improved a lot, things are normal. Even many management highlighted domestic demand is improving and already improved and export data whatever we see, garment exports numbers are good, rather they are growing for the last three months. Considering all those things, positive point, still you are thinking that margins will not be improved or we don't have much on the margin improvement clarity.

Neeraj Jain:

No, we are very clear on the margins as of now. It's not that we don't have clarity. I'm saying the margins will not improve till the time our raw material cost is higher than the world. In terms of demand, I also mentioned both domestic and export, we are running full capacities in both the businesses. So, our issue of margin is only because of raw material prices are higher. So, there is no change in that unless the prices of every product starts going up, that's a separate situation which is not a case as of now. But on the normal demand side with our expensive raw material, our margins in India may not improve.

Awanish Chandra:

Okay, got the point. And the last conference call we have talked about even before that, our CAPEX plan and everything in detail. So, just wanted to have the follow up that what is the status of all the CAPEX we have talked about during last two conference call?

Neeraj Jain:

So, we announced a total CAPEX of close to about Rs. 2500 crore to be done in this financial year as well as the next financial year for 2 years. I think by and large all our CAPEX plans,



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whatever is our plan is going as per the plan only and I hope that this financial year, the next financial year we will complete all those CAPEX plans.

Neeraj Jain: Okay, so everything is working on time, on schedule.

Moderator: Thank you. The next question is from line of Hemang Kotadia from Anvil. Please go ahead.

Hemang Kotadia: Sir, what is the ratio of cotton and manmade fiber yarn in last two years? So, how we had improved the set of manmade fiber yarn in last two years, if you can throw some light?

Neeraj Jain: India is predominantly cotton fiber consumption friendly. I think the change which is happening on the manmade is very slow as of now because on the manmade side also, our fiber price both for polyester and viscose is much higher than the world markets. The regulations in India where the import cannot happen unless it is approved by the BIS. Unfortunately, not many companies internationally got registered in that. As a result of that, the import of fiber is not happening in India. And the prices of both polyester fiber as well as viscose fiber is much higher than the world price as of now. As a result of that, we are not competitive on the manmade fiber also. So, all our three major raw materials, which is cotton, viscose and polyester today is one of the highest and as a result of that, the competitiveness on the export side overall are definitely lesser for the downstream industry.

Hemang Kotadia: And sir on the Indian spinning capacity side and utilization, if you can throw some light, how things are moving up and you rightly mentioned the 6 million spindles have been stopped working since last few quarters. So, if you can throw some more light on the Indian spinning industries, that will be my question.

Neeraj Jain: These are the estimates done by the industry itself. There is no official data available there. We know that these are spindles which have been stopped or not. But going by the different surveys, different organizations keep doing, these are the estimates that more than 6 million spindles have been stopped in the last 2 years' time. And as I mentioned, we understand almost another about 2.5-3 million spindles are running on the job of basis, etc., And if things do not improve, I think there can be a question mark on that also. Other than that, our rated capacity was in the range of about 54 million spindles. And if I reduce 6 million, we are today at about 47, 48. And out of that, I think the capacity utilization will not be more than 80%-85% as of now. So, as a result of that, even after that, the shortage of demand, there is no excess demand of yarn, which itself shows because of the margin pressures, spinners are not interested to run fully because they are looking at wherever they can save money or wherever they can optimize the result, they are producing that. Other than that, they have stopped reducing the capacity utilization also. Whether it is cotton side or manmade side, so that's on the spinning utilization. On the fabric side, I think most of the organized players are doing well. So, whether it's Vardhman, Arvind or Nitin or some other, they are doing pretty well. Whereas the independent processors or the smaller business, there is definitely some concerns over there because most of the brands which are



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coming from outside, they're looking at more on the organized players. So, there's definitely a difference in the working today of an organized player as well as the unorganized player. Most of the organized players as of now are doing pretty well on the fabric side, whether that's knitted or woven.

Moderator: Thank you sir. Our next question is from line of Surya Narayan Nayak from Sunidhi Securities. Please go ahead.

Surya Narayan Nayak: Sir, just my question is on the macro side. We have been present majorly into yarn side, that is over the years is not changing because our focus more on yarn rather than the fabric or garments or maybe beyond, at least on garment side, we are very much falling short of. So, my call is that now because we have enough surplus of yarn in India, and in fact India gets mileage only when the Vietnam or Bangladesh or China, the yarn scenario improves, then we don't get mileage in the margin side. So, keeping this macro things into account, so what the management think of taking the Company into an area where at least the margins will be improving overall and even the ROCE and ROE will be also improving?

Neeraj Jain: Your first point may be right that historically we are a spinning Company, but if you look at last many years, there has been a greater emphasis on the fabric and the fabric continuously the capacities are increasing. If you look at the topline today, it's almost 65-35 in favor of spinning and fabric. And I think in the times to come if the situation on the spinning side doesn't improve, the expansion on the spinning side may be low and we may continue to grow on the fabric side. Also, there's a new initiative Company taken on the fabric side with a manmade fabric also, which will definitely increase the share of fabric compared to the spinning side only. On the garmenting side, there are still no plans to expand it in a big way. It's a small unit we have. We continue to grow it slowly. But I think there's no clear plan as of now that we want to increase it in a big way. So, it's still, we are running it profitably, but I think considering the overall labor component, we are still to make up our minds whether we really want to expand it or not. So, definitely going forward, next couple of years, fabric will continue to grow definitely both cotton side as well as man-made. And I think personally, the share of fabric in the overall topline will continue to grow from today's level as well.

Moderator: Thank you. Our next question is from line of Sandeep Baid, who is an individual investor. Please go ahead.

Sandeep Baid: I just wanted to understand how does CCI price its cotton? What is the basis of that and do they also sell it at a loss when you compare it with your procurement price?

Neeraj Jain: So, first of all, it depends upon all the demand and supply. If the demand is higher, they continue to increase their prices, or if the demand is not there, then reduce the prices. Primarily, we understand last year's CCI policy was whatever is the import parity of cotton, including the duty they were trying to solidate those prices. But since because most of these smaller spinners, they



didn't have a choice to import the cotton, so they were forced to buy it from the CCI those sizes. But when the losses started increasing, the spinners stopped buying from the CCI and CCI kept reducing their prices. So, it's basically I got to understand they look at it that whatever is the import parity of a cotton, based upon that they generally decide their pricing. At the same time, the industry has been talking to them that if we have to pay the 11% duty, then how will we be competitive. But I think the second part is more on the demand supply because if you add 11% duty and the spinner is not in a position to make money, the demand will keep coming down only. And that's practically or partially happened towards the last 2 to 3 months. And if we look at the CCI spinner, almost about 1 million days available to them from the last stock. And if we also look at the sale for the last almost one and a half months will not more than 10,000-20,000 bales, maybe not more than 20,000 bales for them for the last 45 days. So, I think they will try to fetch the maximum prices so that losses could be reduced, but at the same time to that extent they are flexible because they want to dispose of the stocks also. But the new season has started, they are still carrying a stock of 1 million bales, so I don't know what policy will they make taking it forward and how do they price the product going forward.

Sandeep Baid: So, you are saying that if the demand is not good enough, they are willing to sell it at a price lower than your procurement?

Neeraj Jain: Yes. So, last year also, I think whatever prices they preserved and later on when they were selling there, it was definitely they are taking some loss also.

Sandeep Baid: Right. And given that today they already hold 1 million bales in stock, they may not be very aggressive in terms of buying from the market at domestic?

Neeraj Jain: No. That choice is not with them because that's a mandate given to them by the government of India that whatever is the minimum support price the government has committed to the farmers, the CCI is obliged to buy the cotton at those prices. I don't think that's a choice available to CCI. They will continue to buy. Now what price do they sell? I think that's a separately **32:35** they will have to decide, but it's not that since they already are carrying one million bales, so they will not buy. That choice is not there with them.

Sandeep Baid: And secondly, can you comment on how the demand from the home textile players for yarn?

Neeraj Jain: Home textile players are doing reasonably well in India. So, if I look at most of them are running full capacity especially on the sheeting side is doing pretty well, even on the yarn side is doing well. So, most of our customers, we supply lots of products to home textile players. I think they're doing reasonably well.

Moderator: Thank you. Our next question is from line of Keshav Garg from Counter Cyclical PMS. Please go ahead.



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Keshav Garg: Sir, I wanted to understand the garmenting part which you basically talked about that you are not sure about scaling up the labor in that division. So, firstly sir, has the government has a fixed term employment already implemented in the textile industry?

Neeraj Jain: Yes.

Keshav Garg: So, then in that case, what is the apprehension about the scale up, I mean hiring more labor? Should that resolve the labor issue in the industry?

Neeraj Jain: No, it doesn't resolve the issue. So, there were two issues. One was the fixed term; one was the permanent labor which by the fixed term the issue was just resolved. Second is the cost part. If you look at the Indian cost today, the worker availability is a big challenge in most part of the country except in Bihar and West Bengal where most of the industries either in the down South or in the North India or Central India. The cost of labor in India is not less than \$230 to \$240 per person as of now. As the Bangladesh cost is still about 11,000-12,000 Taka which is equivalent to about \$120. In the garmenting industry, the overall labor cost is always in the range of about 22% to 25% and the cost is double. We are talking about the Bangladesh cost are in the range of about maybe 10% to 11% of garmenting, we will be at (+20%). So, we will never be competitive even on the debt cost also, because our labor cost is going to be very, very expensive. Either the industries start thinking they go to UP, they are there, the labor availability would be there. But wherever the migrant labor is coming in, the availability and the stability of labor is a huge challenge as of now. So, it's neither available nor stable. The attrition in industry is almost in range of about 5%, 6% per month, even with a cost of \$250 also. And the concern for us is the way the Indian social economic factors are moving where people do not want to come to the cities to work. They got some support under MGNREGA, they got some support under Ayushman Bharat, they got some support under different schemes. They are happy staying in their places. So, either the entire industry moves to those areas which has its own challenges or if the labor doesn't come here, how the labor intensive industry will work. I think this is a major challenge for the next, which will be more clear in next 1 to 2 years. How does it work on? So, till the time we are clear on the availability and the cost part, there is no plan for us to expand it in a really big, big, big way.

Keshav Garg: And also, many state governments, I understand, they are giving around Rs. 5,000 per month per head labor subsidy. That is, the government will pay those wages on behalf of the industry. And plus, the central government is also, I think, giving some PF for 2 years or something like that. So, altogether, even after including all these basically incentives and subsidy to the industry also does not make sense?

Neeraj Jain: It doesn't make sense because most of the states which are giving are for the local laborers. Local labor is not available, it's not trained, and you want to take the people from outside, you will not get the subsidy. Two, I think more than the subsidy, you first have to look at whether that state in terms of the overall ecosystem is a workable state or not. So, though many states have given



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these incentives, so example now is the Gujarat is given. The local Gujarat is not ready to work in a government Company. So, even if there are subsidies available, what will you do with that? I think there are different challenges. I'm not saying the opportunity is not there, the opportunity is there, but looking at the cost and the historic ways because wherever there are clusters, now there are lots of good clusters in Tirupur and down South. There are good clusters in North India. There's no subsidy available in these areas. Now going to a new cluster altogether and start creating those capacities, I think it's going to take some time. I understand the good initiative of the government on the PM Mitra Scheme is there, but I think still none of the parties is implemented as of now. Maybe next one year, there are lots of development I understand is happening on those parts and they start allocating or allotting the land maybe next one year or so. So, it's only after that that will we be in a position to know whether we can make any business case for this. Only on the basis of virtually putting up a surprise to you, probably we are a little hesitant to do that.

Keshav Garg:

And also, sir what about the domestic garment market which is constantly increasing in size. Sir what is the import duty on garment imports and sir like can't we do garmenting for the domestic market in case there is a good protection available in terms of tariff?

Neeraj Jain:

No, there is not enough protection available. So, there is already a good amount of garmenting which is happening in Bangladesh. And also for most of the brands which are operating in India, they have started importing the garment also. So, both in terms of garments, even on the fabric trade also, especially the knitted fabrics, I think if you look at most of the manmade based fabrics, looking at import about 50-70 tons per day, about 3 years back, today it's more than 1000 tons per day because our raw materials are expensive, all our fibers are expensive, as a result of that yarn will be expensive. So, it's much cheaper for the fabric to get imported.

Keshav Garg:

So, lastly, sir, you alluded to the raw material, cotton, polyester and viscose being expensive, more expensive in India. So, can't the industry at least for the exports under advanced authorization scheme, they can import viscose and polyester and export the end fabric or the garment. So, does that not still make sense? Then what's the problem in that case?

Neeraj Jain:

So, there are two problems in that. One, even if you want to import viscose or polyester, the freight component will be there. So, we are competing with China or Vietnam or Korea. We're talking of the raw material available there and the raw material which will be available even under advanced authorization will have a component of freight onto that, which will be one additional cost, two. I think for the yarn export, we can still do it. But if I have to sell the yarn to the domestic market for the fabric or for the garmenting, then the advanced authorization cannot work because there are different duty structures and there are different incentives available on those segments. So, if I have to export yarn, I can do that. But again, my cost will be higher because my raw material will add the component of freight onto that. And if I want to sell to the domestic market for the further export of either fabric or garment, it does not make



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sense at all. That will take time to be done under advanced authorization. So, actually going by all the policies today, I think it's definitely a concern how do we export the end product.

Moderator: Thank you. Next is a follow up question from the line of Surya Narayan Nayak from Sunidhi Securities. Please go ahead.

Surya Narayan Nayak: So, just my basic concern is that you have been very much showing a lot of concerns towards the readymade garment area because of the labor issues. But in the yarn side also, you see the government in successive years, they have been raising the MSPs and rising MSPs, Suo Moto doesn't rise in our spread. We are also at that problem also that is not actually accessible and resultantly at least the leading garment players from the South are able to earn recent return ratios and returns than us. So, even the lowest margin happens to be around 11%, that is 10% to 11%, that is consistent. But in our case that is not. So, any sense you will be thinking on the garment side because we are hardly present there?

Neeraj Jain: I have mentioned to you the reason of garmenting that because of the non-availability of labour and a very high cost, we haven't made up our mind as of now. So, because we are basically a textile material producer and garmenting, and textile are two different worlds. They are two different businesses. So, we have to look at it on an independent basis. And I'm not saying that we have not, we have rejected it also. So, whatever small capacity we are doing, we are marginally increasing that capacity from 6,000 tons of shirts per day to about 10,000 shirts or so. And maybe we may take another 1 or 2 years to make up our mind finally, whether we should go big way into the garmenting or not.

Surya Narayan Nayak: So, in the case when the successive years we will be seeing at least 5% rise in the MSP that is basically given because the government wish to placate the farming community for that matter. So, in that case, we are actually not getting that kind of mileage because cotton happens to be an international commodity. So, what is the recourse to pure yarn players like us?

Neeraj Jain: So, there could be 2-3 possibilities. One, your first point is very valid. The MSP will keep increasing 4% to 5% every year, which has been great. And it may continue to do the same. But at the same time, the industry is talking on two issues to the government. One, you allow the import of cotton duty-free. So, even if our cotton is expensive, at least we can import as the rest of the world will also be doing. So, we will be competitive. Two, the industry is also talking to the government in case you want to support the MSP, which is important because if the government doesn't agree the MSP, then the farmer will not be growing the cotton at all. So, if you want to support the farmers better we keep their procures but their marketing strategy or the pricing should be aligned to the international market. So, that's the industry's request or suggestion to the government. Let's see whether the government agrees to that or not.

Moderator: Thank you. Our next question is from the line of Rajesh Jain from RK Capital. Please go ahead.



- Rajesh Jain:** I have 2-3 short follow up questions. So, your blended margins are like today 13% to 14%. What would be the margins on the fabric side?
- Neeraj Jain:** Definitely much better than this. We don't share the margins separately, but it's definitely much better than the average.
- Rajesh Jain:** And I think in the last concall, you mentioned about venturing into technical textiles. So, what would be the projected margins? And can you throw some light on how the CAPEX is going on there?
- Neeraj Jain:** So, the technical textiles, we are going in for a 100% man-made fabric project. It is only on the apparel side. I request Sagrika to answer this question.
- Sagrika Jain:** So, first about the capital expenditure, it's progressing well, and we have been ordering our machinery as planned, as scheduled. So, we are aiming for next year around September-October, it should be operational. So, we are dividing it into two phases. The first phase we are aiming for a capacity of 15 lakh meters per month. And our profitability of PBDIT to sales would be in the range of about 25%-30%.
- Rajesh Jain:** Sorry, can you repeat the last sentence? I missed, just the last sentence.
- Sagrika Jain:** Yes, the PBDIT to sales that we are projecting are in the range of 25%-30%.
- Rajesh Jain:** And sir, you have mentioned in your opening remarks about the reuse or the recycling of old garments which has taken away a bit of demand. So, just can you explain this trend a little bit more? Is it a big trend that is catching up and can it significantly impact long term demand?
- Neeraj Jain:** So, definitely in terms of thought process, most of the Western world is looking at this. The Europe has passed a law starting next year 25, which will be landfilling through the garmenting is not possible or will not be allowed. So, it has to be recycled, or it has to be resold. So, most of the stores in Europe and USA, they started putting up a counter for the sale of old garments. As well as if you look at the number of recycling lines in the entire world, they are increasing exponentially where both post-consumer as well as the pre-consumer fabrics are getting recycled into the fiber and the demand and the yarn is again made out of that, partially. So, this trend definitely in the Western world is catching up. In the Eastern world, which are the poor countries like India, China, this trend is not there at all. But both Europe and the USA, there is some change happen, and the next generation definitely is looking at it with a more concern because they want to look at sustainability in a better way. So, it's just a starting trend. We will have to look at how does the demand improve but going by all the regulations and laws which most of the governments are considering, this will be taking definitely a part of share of virgin fiber.



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- Rajesh Jain:** So, can there be an opportunity in us? I mean, is this something that we can also explore doing the recycling?
- Neeraj Jain:** Yes, we are already doing so. We have one recycling line with a capacity of about 6 tons per day which is running full. We have already ordered the second line of another 6 tons per day. And most of the time the recycling percentage in a garment is between 20% to 30%. So, if I have a 6-ton line practically, I can do close to about 25 tons of total yarn. So, we have, and our product is well established, well accepted by lots of good brands. And we are definitely looking at this as one of the growth areas for us.
- Rajesh Jain:** In the recycling segment, the margins would be better than the yarn manufacturing or it will be inferior?
- Neeraj Jain:** Generally, a little better.
- Moderator:** Thank you. Our next question is from line of Resham Jain from DSP Asset Managers. Please go ahead.
- Resham Jain:** So, I have just two questions. First is on technical textile. I heard that margins are going to be 25% to 30%. I went back and saw the quarter four conference call where we actually mentioned that the margins will be similar to Company average. Has there been any change in the initial plan versus now?
- Neeraj Jain:** There is no change in that plan. So, what we are saying, there could be two segments within that 100% manmade fabric. One is purely on a 100% polyester base, where the margins could be the average. But definitely, within that, there are some segments which are kind of a replacement of a technical textile, where the margins could be better. Two, I think our knowledge in India today on this fabric or in this product is relatively less. And it's only slowly as we implement the project, there could be a possibility for us to improve the margins because as of now there is a demand in whatever estimate we have done, it could be in the range of from average to a little better. And in many cases, we said the average of fabric. The average of fabric in any case today also is better than the Company's average.
- Resham Jain:** Understood. Clear, sir. Sir, the second question is on green energy. And you can correct me if I'm wrong. I was just looking at the numbers. Our green energy contribution to the overall energy consumption is close to 5% odd. Is that correct?
- Neeraj Jain:** Yes, that's correct.
- Resham Jain:** When I look at some of the top 5-7 companies in India, it seems like our number and now these days in the last 3-4 years, the green power has become much cheaper than the traditional power



source. Is there any reason why we are a little slow on this front versus others? And are there more accelerated plans to increase the green energy source?

Neeraj Jain:

Definitely, we are slower or we are behind most of the today comparison to lots of good players. There is no doubt about it. But having said that, we have already accepted this and we are working very aggressively on this. And your idea is correct. In the next 2 years, we are trying to reach from 4%-5% to at least 25% of the green energy in next 2 years. And maybe there could be a possibility that we will be crossing this 25% to even 40% also. So, there is definitely a very aggressive plan for next 2 to 3 years. And whatever delays happen, we're trying to catch it up as fast as we can.

Resham Jain:

And sir what will be the benefit when you do the ROI or the overall energy cost you have in terms of rupees crores versus this change, what will be the total benefit you are envisaging in next three to four years?

Neeraj Jain:

First of all, all these thoughts which we are having is not purely from the ROCE perspective. I think most of the customers or most of the brands are talking to us about the green energy where they do not want us to consume coal, they do not want us to use the conventional electricity,, etc., So, these issues basically coming from the brands where they are pushing or they are suggesting us to do this. Having said that, every project will be looked at in terms of the commercial and I expect every project will give us at least 15% to 20% return on the capital employed, at least 15% to 20% if not more or maybe most of the cases it will be more than that. So, I think because there are different combinations where we are looking at the solar so as we are looking at the biomass boilers, we are looking at the project where the power to be taken both wind as well as solar from the outside. So, there are many projects which are going on and we are evaluating every one of that. I hope we should be in a position to get whatever investment we do at least 20% return on that.

Resham Jain:

Understood sir. And sir, the last one is on fabrics. Overall, where are we seeing the higher kind of traction in the fabric business more from domestic or from export business and the expansion which you have announced, out of that, how much is for fabric if you can just guide on that. I think 175 million meters to 200 million meters. Is that correct? And by when it will get completed?

Sagrika Jain:

Right, so on the fabric, I can talk on the capacity expansion. So, our major is solid dyed. So, we are expanding solid dyed by 20% and this capacity should also be operational in the next 14 months. So, that is first. In yarn dyed also, we're expanding a bit, say around 20%. Print, as mentioned earlier, we have just added a machine of digital print, so we are okay in print as of now. So, as of now, regarding demand, definitely there is a demand full, especially from the export market. We would say that this is mainly driven by the drying up of inventories by major customers. So, for example, the US has a good demand full as of now. We are running at 100% capacity utilization. So, that is the first indicator. And the second indicator is also that we have



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visibility of good orders up to Jan, and even further than that. And as for the domestic market, as we know, we just passed through festive season. So, we're just waiting for some customers to also give feedback on how they have performed. But as of now, it looks okay.

Moderator: Thank you. Next is a follow up question from the line of Hemang Kotadia from Anvil. Please go ahead.

Hemang Kotadia: I just have one bookkeeping question. What is the net cash on the balance sheet right now? Net cash?

Neeraj Jain: It is almost Rs. 2300 crores. And the debt is about Rs. 1000 crores.

Moderator: Thank you. Our next question is from the line of Rajesh Jain from RK Capital. Please go ahead.

Rajesh Jain: So, considering that there is a good demand from Europe which you have mentioned in various calls and that you are undertaking modernization of machinery to have faster turnaround times because as you mentioned in the last call, the customer needs faster response and quick turnaround time. So, considering that, what could be the trajectory of our sales volume growth for the next 12 months?

Neeraj Jain: Definitely, we are moving more and more towards the brand business. So, whether, I mean, the brand business, when we say the brand business, that will not be coming directly from Europe. The end product will go to Europe or to the USA, and the garmenting will happen in the different parts of the world, which may include the Asian countries where the garmenting would happen. So, more and more brand business can definitely give us a better margin, and for that we require to make our shop load more robust so that the deliveries could be given to them in a shorter period of time.

Rajesh Jain: Yes, so considering that because you will be able to cater to your customers' demand in a quicker time, do you anticipate a good sales volume growth? And also considering the CAPEX, the upcoming CAPEX, over the next 12 months, what could be the potential sales volume growth do you foresee? Do you have any numbers?

Neeraj Jain: As of now, we will not be in a position to give as numbers because the demand is coming every day, is increasing every month, every day. So, I think we are only expecting that we require to create that capacity so that further demand could come. Today, whatever is the capability we can give them in a shorter period of time, we are already exhausted. Now we are further enhancing or increasing it in a big way so that that volume could come.

Rajesh Jain: So, in other way, like by when that capacity is coming up and how much more firepower it could give you in terms of 100% capacity utilization, how much volume it can add?



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Neeraj Jain: Most of this CAPEX will be completed by June next year, March to June quarter will be completing most of this CAPEX.

Rajesh Jain: And at 100% utilization, how much would it be able to add? Considering not only the CAPEX, but also the faster turnaround times which this will enable you to do?

Neeraj Jain: Our efforts are for the same. Let's see how the market goes.

Moderator: Thank you. As there are no further questions from the participants, I now hand the conference over to the management for closing comments.

Neeraj Jain: So, thank you very much for this conference call and I think it's been a wonderful journey. Though in challenging times the business becomes more difficult, but at the same time, I can assure you all the efforts being done by the management in terms of passing through this time successfully. And with the decent margins, all efforts are on. And as well as, fortunately for us, as of now, since the fabric has been pretty well, so the Company doesn't have any issues in terms of the overall margin growth happening. But at the same time as the challenges are increasing, we are agile to look at those challenges and we are internally looking at all our cost structures very carefully and lots of initiatives the Company has taken. And I'm sure by the time the good times come in, we will be ready to take full advantage of good times also. Thank you very much for all the patience and your continuity of holding with us. And I'm sure these things definitely will improve maybe next couple of quarters once the government takes some decision. And we will definitely look at a much better result in the times to come. So, thank you to all the participants as well as B&K to hold this conference.

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