



Vardhmān

Vardhman Textiles

Invested for the Long Haul

May 2016

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Snapshot



The largest listed, integrated textile manufacturing company in India

- Dominant player across yarn, fabric and sewing threads
- Strong position in acrylic staple fibre and presence in garments
- 25 manufacturing facilities across India employing ~26,000+ people across the company and its subsidiaries

Market leadership in key product offerings

- Largest yarn manufacturer in India with a capacity of ~1mn spindles including 7,188 rotors
- Leading manufacturer & exporter of cotton yarn in India and leading manufacturer of piece dyed fabric
- The 2nd largest producer of sewing threads and the market leader in hand knitting yarn in India

Alliances with large global players

- VTL has forged global alliances with leading textile companies such as American & Efird (A&E) USA, Marubeni, Japan and Nisshinbo, Japan

Listing information : BSE/NSE

CMP (INR) (9 th May, 2016)	1,002.2
CMP (USD)	15.18
Market Cap (INR mn)	63,762.4
Market Cap (USD mn)	966.1
Outstanding Equity Shares (mn)	63.6
Face value of equity (INR)	10
52 weeks high/low (INR)	1,028.00 / 585.00
3-months average daily volume (NSE+BSE)	47,900
Bloomberg code	VTEX:IN
Free Float	38.0%
Sector	Textiles

Shareholding Pattern

	Mar-14	Mar-15	Mar-16
Promoters and Group *	61.9%	61.9%	62.2%
Institutions	23.4%	23.5%	23.3%
Others	14.8%	14.7%	14.5%
Total	100.0%	100.0%	100.0%

Particulars	FY14	FY15	FY16
Total Revenue (INR mn)	62,403	69,522	67,249
Growth %		11.4%	(3.3%)
Net profit (INR mn)	7,655	4457	6315
Margin %	12%	6%	9%
EPS (Basic)	115	64	93
% ROCE	23	19	20
% RONW	25	12	16
Net worth	31,320	33,753	38,465

% Returns	6-mth	12-mth	24-mth
VTL	32.8	58.0	195.8
BSE	1.7	(6.6)	9.1
BSE Mid Cap	3.7	6.2	47.8

*Including treasury stock held by VTL Investments

All currency conversions in the presentation has been done at 1 US\$ = INR 66

Corporate structure



Vardhman Textiles Limited (VTL)
1973
Yarn, Fabric
Revenue: Rs. 67.25bn# (US\$ 1.02bn)
Listed on BSE, NSE

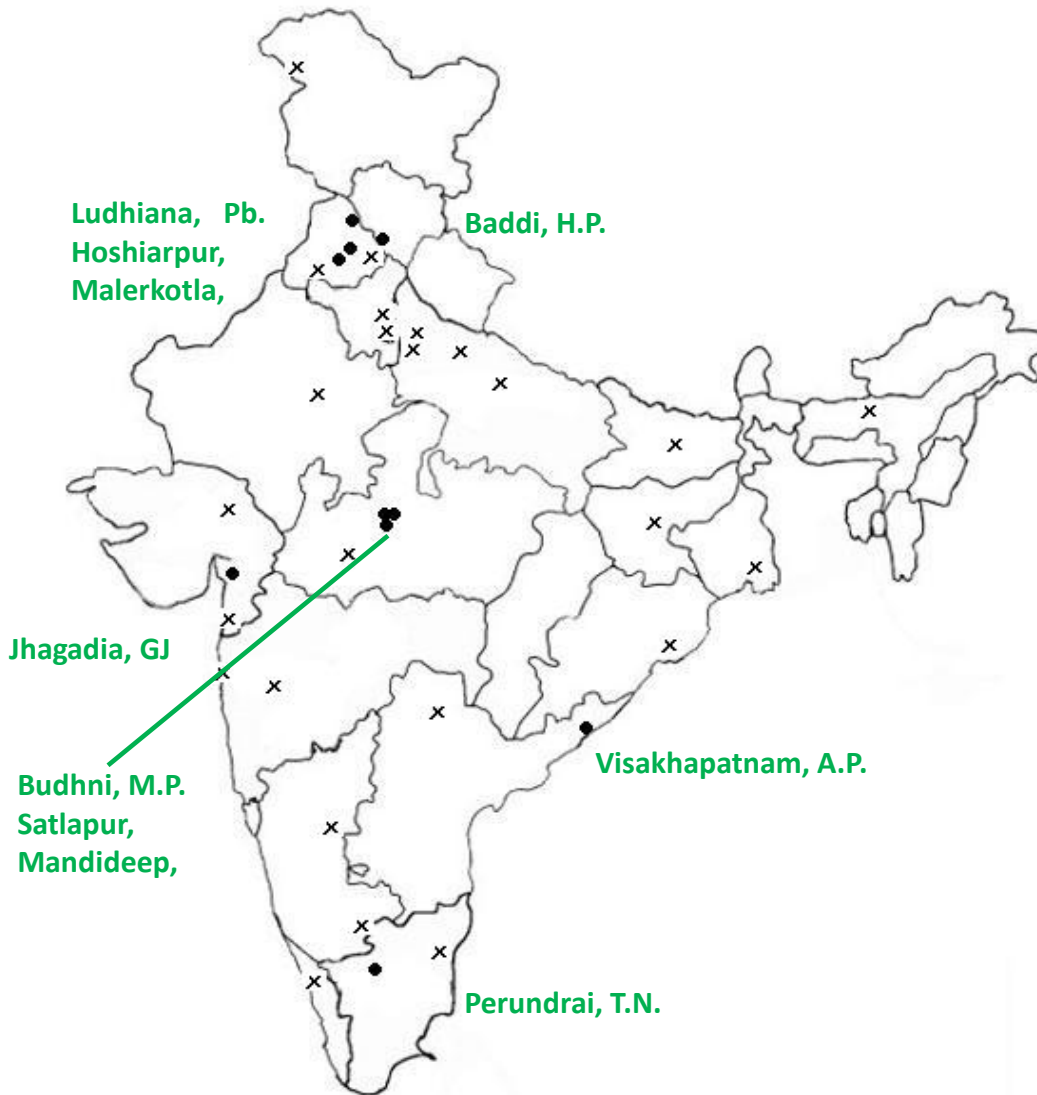
	Vardhman Yarns & Threads (VYTL)	Vardhman Acrylics (VAL)	VMT Spinning Co. (VMT)	VSS	VNG
VTL Stake	51%**	70.75%	89%	31%	51%
Business	RMG / Industrial / Speciality Threads	Acrylic Staple Fibre	100% Cotton Yarn	Special Steels	Garments
Capacity	41 TPD threads 71k spindles (captive)	20,000 TPA	46,320 spindles	Rolling 150,000 MTPA	1.8mn pieces
Revenue #	INR 7.28 bn (US\$ 110.3 mn)	INR 4.12bn (US\$ 62.4 mn)*	INR 1.57 bn (US\$ 23.8 mn)	IN R 6.56 bn (US\$ 99.39 mn)	INR 576.8 mn (US\$ 8.73mn)
Collaborations	A&E, USA	-	Marubeni, Japan	-	Nisshinbo, Japan
Market Status	Unlisted	Listed on NSE	Unlisted	Listed on BSE & NSE	Unlisted

* Including Trading Turnover INR 1314mn ** Announced Stake Sale
 # Consol revenues as on 31st March 2016

All currency conversions in the presentation has been done at 1 US\$ = INR 66

Group also has two investment companies VTL Investment Ltd and Vardhman Holdings Ltd. In the public domain other than the above companies, out of which Vardhman Holdings Limited is a listed company and VTL Investment is 100% subsidiary of VTL.

Manufacturing facilities & capacities



Yarn	• ~1mn Spindle- Punjab, Himachal & Madhya Pradesh
Fabric	• 1320 Looms – Himachal Pradesh & Madhya Pradesh
Processing	• 110 MMPA – Himachal Pradesh & Madhya Pradesh
Acrylic Fiber	• 20,000 TPA - Gujarat
Dyeing	• 71 TPD – Punjab & Himachal Pradesh
Sewing Threads	• 41 TPD – Punjab, Tamil Nadu & Himachal Pradesh
Steel	• 150,000 TPA (Rolling and Billets)
Garments	• 1.8mn Pieces p.a. - Punjab
Power Plant	• 50 MW – Madhya Pradesh

Management Commentary on Key Businesses



Yarn Business – from commodity to fashion

- Used technical tie-ups with well recognized global corporates from Japan and Korea to strengthen foundations of the Business.
- 1/3rd of total yarn production is exported, 1/3rd is sold domestically and remaining is used to feed the captive looms.
- Focus on automation and to further diversify customer base.
- De-risked business through value added and specialized products
- Capex of INR 1.8 bn was incurred in FY16 largely on modernisation, de-bottlenecking and line balancing. Estimated Capex for FY17 is INR 2.0 bn.

Value Added Products	
Compact Yarn	Fibre Dyed
Cotton Lycra	Gas Mercerized
Melange Yarn	Fancy Yarns
Cotton Dyed	Slub Yarns
PC Yarn Dyed	Acrylic Yarns
Yarn Dyed	Hand Knitted Yarns
Specialized Products	
Cotton Lyocell	Cotton Silk
Cotton Bamboo	Cotton Modal
Cotton Tencel	Cotton Viscose
Environment Friendly Products	
Organic Cotton	Fair Trade Yarn
Contamination Free Yarn	

Leadership in Hand-knit yarns – Testimony of emphasis on Value Added Products

- Market leader in hand-knit yarn category - 40% share of organized and 30% of total market
- Presence at ~1,800 retail outlets in 650 cities/towns across India with ~6.0 mn consumers
- Technology upgradation, new product development and innovative marketing strategies – keys to success
- 45 sub brands in various packaging categories under Vardhman knitting yarn umbrella brand.
- Staying in-vogue – new designs introduced every year depicting latest fashion trends
- Consumer/dealer friendly approach



Operational efficiency improvement continues...



Parameter	FY14	FY16	Change FY14-16
No. of Spindle* (average for the Period - Standalone)	954,367	994,651	4.2%
Capacity Utilization (Excl. Open End & Vortex)	95.57%	97.29%	1.8%
Production (in MT) / Day (Spinning)	478	564	18%
Grams / Spindles / Shift (30's Count Hoisery) (indexed to 100)	100	107	7%
Grams / Spindles / Shift (30's Count Poly-Cotton) (indexed to 100)	100	116	16%
Generation of Hard Waste (indexed to 100)	100	78	-22.4%
Average Invisible Loss (indexed to 100)	100	89	-10.3%
Energy Consumption (Units/Kg) (indexed to 100)	100	85	-15.4%

*Spindles include Rotors & Vortex converted to spindles equivalents @ 5 & 15 respectively.

** Including Allocation of Corporate / Branch Employees and excluding intra business revenue.



Fabrics business drives growth

- Weaving and processing capacities continue to expand in tandem and stand at 170mn/110mn meters of fabric p.a.
- One of the few fully integrated fabric suppliers in the country and largest producer of stretched fabric.
- Producing wide variety of fabrics for Tops & Bottoms for Men, Women and Children.
- Doing specialized finishes like Liquid Ammonia, Teflon / Nanocare (oil & water repellent), ETI etc.
- Brands account for 40% of sales and these brands include large international and domestic brands like GAP, H&M, Uniqlo, S'Oliver, Benetton, Van Heusen, Peter England, Wills, etc.
- Sales are distributed evenly across the globe with 40% to Asia (Incl India), 33% to USA and 27% to Europe.
- Capex of INR 1.75 bn was incurred for fabrics business in FY16 . Estimated Capex for FY17 is ~INR 3.5 bn.

Other segments steady with no major capex plans

Sewing Thread Business

- Vardhman continues to be the 2nd largest brand of specialized threads in India
- In a strategic decision VTL has agreed to sell 40% stake to the Joint Venture partner American & Efird, Inc. USA (A&E). This is a win-win situation for both parties as A&E consolidates the threads business on its books and VTL focusses on growing its core businesses of yarn and fabric. The partnership continues as VTL retains the 11% stake for a minimum period of 3 years.
- The strategic alliance as a licensee for manufacturing & distribution of A&E branded sewing threads in India continues
- During FY16, the surplus cash in this business was returned to shareholders and VTL received a total of INR 1.07 bn as dividend

Acrylic Fibers Business

- This plant, set up in collaboration with Marubeni & Japan Exlan of Japan continues to be a steady state operation but the business has traditionally been more volatile than the yarn and fabric business
- The product finds use in manufacturing of hand knitted yarns, blankets, jerseys, sweater, saris, upholster, carpets etc. but given the small scale of the business in the global context and the low growth of the acrylic fibers business, there is no plan to expand capacity
- During FY16, part of the surplus cash in this business was returned to shareholders and VTL received INR 390 mn as dividend

Garments Business

- Started as a forward integration strategy in a 51% JV with Nisshinbo Textiles Inc. for production of shirts (both for sale in India as well as exports to US, Europe & Japan), this business is now profitable and continues to show improvement in operational performance
- VTL believes the risks and rewards in this business are very different from textiles and has no immediate plans to grow it



Stake sale in sewing threads business



Deal Summary

- VTL has agreed to sell 22.8 million shares (~40% stake) in its subsidiary Vardhman Yarns and Threads Ltd (VYTL) to its US-based JV Partner American & Efrid Global LLC (A&E). After the completion of the transaction, A&E will hold 89% of the equity stake in Vardhman Yarns, up from its 49% stake, which it had acquired in 2008.
- The deal values VYTL at an equity value of INR 9.9 bn
- The said transaction will result in a pre-tax cash inflow of INR 3.96 bn.
- VTL shall have a put option and A&E shall have a call option on the balance 11% stake in VYTL, to be exercised after 3 years.

Deal Rationale

- The business of sewing threads is a complex business and requires significant management time and attention. In case the group chose to retain and grow the thread business the Yarn and Fabric growth might have been compromised. Therefore, the Board has taken a pragmatic and long term view of disinvesting in favor of A&E and concentrating on growing the core Yarn and Fabric Business.



Management views on global scenarios

Yarn v/s Fabric

- Spinning has low entry barriers but a large portion of the global capacity is old and inefficient, thereby leading to low utilization
- Given that there is over-capacity globally, return on capital expectations for investment in a new spinning unit are low
- However, returns tend to follow an upward sloping curve, as each year's capacity addition happens at a progressively higher cost, thereby enabling older entrants to have better conversion margin translating into higher returns on their historical cost
- Fabric per se has much greater entry barriers than Yarns, as the minimum capacity required to be competitive in the longer term entails an up front and additional infusion to fund initial losses before the business can be stabilized and a high utilization established.

The China factor

- India has consistently remained at par with China when it comes to competitiveness in spinning and efficient players like VTL have in fact made considerable exports to China.
- China's advantage on Fabric has been reducing as labor costs rise and integrated players like VTL are able to compete effectively in the global market – this trend is expected to continue

The Vietnam and Bangladesh factor

- Bangladesh and Vietnam have clear advantages over other countries including India when it comes to garments and this is expected to continue until substantial labor reforms are put in place in India

Overall growth vision

- **VTL will stick to its core competencies of textile manufacturing...**

Why not garmenting... VTL believes that garmenting is a business with very different skillsets, risks and rewards and although it has undergone a learning curve towards building a profitable garments business, VTL believes that the current policy framework is not conducive to large scale garment manufacturers ; it is however not averse to taking a relook if and when the business environment for garmenting in India improves

Why not branding / retailing.. VTL does not believe that branding/retailing is the logical extension to manufacturing. VTL believes that branding and apparel retailing are businesses with very different skillsets, risks and rewards and therefore is not planning to pursue these businesses in the near term.

- Within textile manufacturing, to look at **increasing wallet share with large clients by expanding product offerings** over long term – VTL’s vision is to become a one-stop shop for its large clients when it comes to all their yarn and fabric requirements

Foray into printed fabrics a step in the right direction.. printed fabrics was a gap in the VTL’s product offering which is in the process of being plugged, as capacity is being created for the same in a phased manner. VTL has commissioned the first phase of its printed line in Mar, 2016, and it is currently being stabilized, a process that may take 3-6 months.

Will look for more strategic additions to product portfolio.. In addition to cotton yarn and blends, VTL may look at more synthetic and blended yarns, and addition to existing fabric processing capabilities in the future including expansion in Stretch Fabric etc.

Management philosophy towards value creation

- Pursuit of well capitalized growth rather than excessively leveraged growth – VTL has always erred on the conservative side when it came to aggressive expansion funded by leverage which has helped it build a solid foundation and an inherently much stronger and sustainable business. Each time, it has focused on consolidation – both fiscal consolidation and operational efficiency before embarking on a major expansion. VTL believes that such a model will eventually lead to more sustainable value creation and will continue to follow this philosophy.
- Long term capital allocation to include organic as well as inorganic growth, given there could be bargain situations available – Historically, while VTL has demonstrated success in working with foreign equity partners, it has stopped short of pursuing acquisition-led growth. At this point however, VTL believes that the Group both has the balance sheet strength as well as the inclination to pursue inorganic opportunities, at the right price, as a number of good assets are under stress and potentially could offer good bargains.
- Key considerations for inorganic growth
 - Cost environment with respect to labor and power – VTL will avoid States where labor is in short supply; likewise power or work culture is a concern.
 - Additions to product offering basket for key existing customers – VTL will look for acquisitions which fit into the overall growth vision as explained in the previous slide.



Value creation roadmap



- Historical Perspective
 - INR 1 Lac invested in VTL in May 2007 is worth INR 4.95 Lacs today including dividends
 - Progressively increasing dividend payout ratio
- Way Forward
 - Continued focus on sweating assets and cost efficiencies to drive ROCEs
 - Treasury stock to be used opportunistically to unlock value for shareholders. Currently, treasury stock of 4.29% (1.1 m & 1.6 m shares held by VTL Investments and Mahavir Shares Trust respectively) is worth INR 2.73 bn.
 - Exploring the rationalization of group structure with a view to provide seamless access to cash and cash flows at group level in the most tax efficient manner
 - Committed capex of INR 7.5-8.0 billion (FY17 to FY19), mostly towards value accretive fabrics, implies significant free cash flow generation leading to low debt on the balance sheet
 - Utilizing the strong balance sheet to capitalize on inorganic opportunities in order to add value to shareholders

Financials

Key financials (consolidated)



INR Million

USD Million

Particulars	FY14	FY15	FY16	Q4-FY15	Q4-FY16	FY14	FY15	FY16	Q4-FY15	Q4-FY16
Revenues	62,403	69,522	67,249	17,156	17,027	946	1,053	1,019	260	258
EBITDA	15,342	12,793	14,034	3,524	3,840	232	194	213	53	58
Margin %	25%	18%	21%	21%	23%	25%	18%	21%	21%	23%
PBT	10,476	6,222	9,039	1,814	2,485	159	94	137	27	38
Margin %	17%	9%	13%	11%	15%	17%	9%	13%	11%	15%
PAT	7,655	4,457	6,315	1,231	1,737	116	68	96	19	26
Margin %	12%	6%	9%	7%	10%	12%	6%	9%	7%	10%
PAT After Minority Inte	7,183	4,002	5,786	1,093	1,594	109	61	88	17	24
Margin %	12%	6%	9%	6%	9%	12%	6%	9%	6%	9%
Net Worth After Minor	31,320	33,753	38,465	NA	NA	475	511	583	NA	NA
Total Debt	33,727	26,402	27,782	NA	NA	511	400	421	NA	NA
Cash & Equivalent	8,643	10,714	14,413	NA	NA	131	162	218	NA	NA

Most of the debt on the Company's books enjoys TUF scheme benefits and hence lower interest rates

All currency conversions in the presentation has been done at 1 US\$ = INR 66

All figures are for Vardhman Textiles Ltd on consolidated basis

Annexures

VTL management

Name	Designation	Details
S .P. Oswal	Chairman & Managing Director	<ul style="list-style-type: none"> Is an M.Com. Gold Medalist from Punjab University Chandigarh and also holds directorships in 22 other companies Holds Directorships in Confederation of Indian Textile Industry and New Delhi Institute of Management. Conferred the Padma Bhushan Award for his contribution towards Trade and Industry.
Sachit Jain	Jt. Managing Director MD, VSS	<ul style="list-style-type: none"> B.Tech from IIT (Delhi) and an MBA from IIM Ahmedabad Holds directorships in 21 other companies including Vardhman Acrylics Ltd., Vardhman Texgarments Limited, Vardhman Holdings Limited and VMT Spinning Company Ltd Chairman of the Audit Committee of Vardhman Yarns & Threads Limited , VMT Spinning Company Ltd and Vardhman Nisshinbo Garments Limited
Suchita Jain	Director	<ul style="list-style-type: none"> Masters in Commerce from Punjab University Chandigarh. Holds directorships in 13 other companies including Vardhman Holdings Limited
B K Choudhary	MD, Vardhman Acrylics Ltd.	<ul style="list-style-type: none"> Director, Operations at Vardhman Fabrics Division, Managing Director in Vardhman Acrylics Limited Masters in Commerce from Meerut University and MBA from University of Jodhpur. Extensive experience within the group in project management and business operations
D L Sharma	MD ,VYTL	<ul style="list-style-type: none"> Holds a B.Sc (Engineering) and MBA from Punjab Agricultural University, Ludhiana. Director in charge of Vardhman Nisshinbo Garments Limited
Neeraj Jain	Jt. Managing Director MD. VMT Spg. Co. Ltd.	<ul style="list-style-type: none"> He is a Chartered Accountant and a Graduate in Commerce from Ludhiana. Has extensive experience in the finance and yarns businesses within the group. Heads yarn business for VTL Also holds directorships in Vardhman Apparels Limited, Vardhman Textile Components Limited and Vardhman Nisshinbo Garments Limited
IMJS Sidhu	President, Baddi Operations	<ul style="list-style-type: none"> Overall charge over the units of the Company situated at Baddi B. Text from Technological Institute of Textiles & Sciences, Bhiwani. Has experience in Maintenance Management, Production Management and Quality Control & Assurance in the group.

Independent directors

Name	Designation	Details
Prafull Anubhai	Independent Director	<ul style="list-style-type: none"> ▪ Holds degree in Bachelors of Commerce and B. Sc. (Economics) from London School of Economics ▪ Is associated with educational and research institutions like Indian Institute of Management (IIMA), Ahmedabad Education Society (AES), Ahmedabad University, CSTEP (Centre for Science Technology and Policy), ATIRA etc. and is the Chairman of the Board of Management of the Ahmedabad University. ▪ Is associated with Vardhman Textiles Limited since July 1980
Dr. Ashok Kumar Kundra	Independent Director	<ul style="list-style-type: none"> ▪ Holds degree of Masters in Economics from the University of Punjab and a PhD from School of International Studies, Jawaharlal Nehru University ▪ Holds expertise in industrial policy, industrial administration and planning and corporate management ▪ Was also secretary to the Government of India, Ministry of Mines, Chairman Tariff Commission and ex-officio secretary to the Government of India, Department of Industrial Policy and Promotion, special secretary in the Ministry of Environment and Forests and principal advisor to the Planning Commission ▪ Is associated with Vardhman Textiles Limited since January 2009
Dr. Subash Khanchand Bijlani	Independent Director	<ul style="list-style-type: none"> ▪ Holds the degrees of Doctor of Management, Maryland (USA), Bachelors in Science and Technology (Mechanical Engineering), Manchester U.K. ▪ Rich experience in the areas of industrial and operational management, strategic management and International management ▪ Is associated with Vardhman Textiles Limited since March 2005
Shravan Talwar	Independent Director	<ul style="list-style-type: none"> ▪ Bachelor of Arts (Computational & Applied Math & Economics) from Rice University and MBA with distinction from Kellogg Business School of Northwestern University ▪ Extensive experience in the field of strategic planning, marketing and restructuring of business operations ▪ Is associated with Vardhman Textiles Limited since January 2010
Devendra Bhushan Jain	Independent Director	<ul style="list-style-type: none"> ▪ Holds degree in B.Sc. from Bombay University ▪ Has an expertise in the field of marketing. ▪ Is associated with Vardhman Textiles Limited since August 2014
Rajender Mohan Malla	Independent Director	<ul style="list-style-type: none"> ▪ Holds degree in Masters in Commerce, MBA (Finance), CAIIB. ▪ Eminent Banker having rich experience in banking and finance field. ▪ Is associated with Vardhman Textiles Limited since September, 2015.

Major global strategic alliances

Product	Alliance Partner	Year
Fibre and Yarn Dyeing	Nihon Sanmo, Japan <i>Technical collaboration for foray into yarn & fibre dyeing</i>	1992
Gassed Mercerized Yarns	Kyung Bang, South Korea <i>Technical collaboration for foray into gassed mercerized yarns</i>	1994
Cotton Yarns	Toho Rayon, Japan <i>Joint Venture for making customised yarns for the Japanese market</i>	1995
Acrylic Fibre (JV ended in 2009)	Exlan and Marubeni Corp, Japan <i>Technology contract for transfer of technology & Equipment supply contract for supply of proprietary and special plant and equipment</i>	1996
Fabric Dyeing & Finishing	Tokai Senko, Japan <i>Technical collaboration for forward integration into fabric processing</i>	1998
Sewing Threads	American & Efird (A&E) Inc., USA <i>Joint Venture</i>	2001
Cotton Yarns	Nisshinbo, Japan (<i>Technical collaboration</i>)	2002
Cotton Fabric	Nisshinbo, Japan (<i>Technical collaboration</i>)	2007
Garments	Nisshinbo, Japan (<i>Technical & Marketing collaboration</i>)	2009

VTL has forged major alliances with global players with an aim of forward integration and moving up the value chain



Government policies and regulations

- **TUFS** — A new scheme (A-TUFS) has been launched by the central government from 13th Jan, 2016. This provides a capital subsidy which is 15% of eligible machinery on garmenting, 10% on weaving, 10-15% on composite units depending on their composition. This is further subject to an overall ceiling of 20-30 crores depending on project type and subsidy previously availed under RR-TUFS.
- **State Subsidy** - Apart from the TUFS, some state governments also provide additional incentives. **Madhya Pradesh** Textile policy lays down a 5% interest subsidy for stand alone textile units whereas 7% interest subsidy on composite textile units on loans taken against TUFS compatible investments. **Gujarat** gives 7% subsidy on spinning and 5% on other than spinning for 5 years and **Maharashtra** reimburses whole of interest over and above the TUFS, subject to investment in specified backward districts
- **Environment Concerns** – As per the regulations the waste water has to be treated for any impurities before discharging it. Vardhman uses the treated water to irrigate the plantations within its facilities and we are putting up a RO facility in Budhni for water treatment.
- **Free Trade Agreements** – Bangladesh is one of the largest export market for Indian Trade. Under the Bangladesh FTA India has allowed Free trade of 61 items and most of them are related to textiles. This will impact negatively the small garment manufactures in India, but this in return can help the Fabric exporters in some way.

Thank You

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