



“Vardhman Textiles Limited Q4 FY2018
Results Conference Call”

May 15, 2018



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Vardhman Textiles Limited
May 15, 2018

Moderator: Ladies and gentlemen, good day and welcome to the Vardhman Textiles Q4 FY2018 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 this conference call, please signal an operator by pressing “*” then “0” on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Avi Mehta from IIFL Capital Limited. Thank you and over to you Sir!

Avi Mehta: Thank you Aman. Good afternoon everyone. On behalf of IIFL I would like to welcome all of you to Q4 FY18 conference call for Vardhman Textiles. From the company we have with us the key senior management, including Mr. Neeraj Jain – Joint Managing Director, Mr. I.J. Dhuria – Director (Materials), Mr. Rajeev Thapar – CFO and Mr. Jasmeet Gill – Head Treasury and IR. I would now like to handover the call to the management for their comments. Over to you Sir!

Neeraj Jain: Thank you Avi. Good afternoon and welcome to the call to all the investors. We declared our results two days back and this was a period where we were however with the old cotton, which was available to us till the Q3 and we started the quarter with the new arrivals of cotton, which was at a different price and in between there was some changes some improvement on the yarn prices also. As a result the situation was a little better compared to the third quarter. As we have discussed during the previous call also the last year cotton situation in India was pretty bad, there were lots of exports of raw cotton, which have happened from India and as a result at a later stage most of the Indians spinners required to import the cotton, which were at much costlier prices. So including Vardhman we were using that kind of a cotton till majority part of the Q3 and the new season, we procured the new cotton, which was in line with the international parity and the year started at a little different a little better mode to that extent.

During this quarter in terms of our productions, I think most of the production went as per the schedules only both on the yarn side and on the fabric side. The overall sales were in line with our budget or the production plan so there is no issue on to that extent also. Cotton as I explained was new and the yarn prices was also stable so the margins were a little better compared to the third quarter so may still not be in line with our normal margins during this quarter as well.

On the overall yarn scenario, I think because of the oversupply created into the country over last two three years because of the lot of subsidies given by the various states, lots of new capacity had come into the country I think that kind of pressure little bit continued but the good thing was the export of yarn from India improved from an average of about 80-85 million Kg earlier these two three months we witnessed the export going up to export crossing even 110-115 million Kg also for a particular month.



Vardhman Textiles Limited
May 15, 2018

As a result the availability in the domestic market was definitely lower which gave some improvement to the yarn prices and they were stable to that extent I think there was a little better situation compared to the Q3.

The fabric was also in line with our overall plan so the production and the sales number are in line with what we had budgeted and there is no extraordinary demand but there is no any disruption or any difficulty in selling what we are producing and I think to that extent the fabric was also overall volume overall customer overall production was in line.

I now request Mr. Dhuria to cover part of raw cotton and then we will cover the business side again.

I.J. Dhuria:

On global cotton scenario the world has added more than 12 million tonne of cotton during 2010-2011 to 2014-2015 where the production was more than the consumption between 2015 and 2016 the consumption was more than the production by 4 million tonne that means the world has reduced the stock by 4 million tonne during this period. The peak stock was about 22 million tonne, which has come down to almost 18 million tonne in 2016-2017. In the year 2017-2018 the world the production and consumption is more or less matching there is a little addition of about 300000 to 400000-500000 tonnes in the stock, but major reduction, which has taken place during this period from 2014-2015 to 2017-2018 in China alone where the inventory has gone down from 14 million tonnes to less then 9 million tonnes the stock will be up to at the end of 2017-2018. Whereas the stock in world less China the similar quantity stock has been added from a lower stock of about 8 million tonnes to almost 10.2 million tonnes.

As far as balance sheet of India is concerned this year we are estimating the India has started with the opening stock of about 3 million bales and with a production of about 37 million bales and with the import of about 1.5 million bales with the total supply of about 41.5 the country consumption is estimated to be around 32.5 million bales and export about 7 million bales and with this we are expecting that the ending stock as on September 30 in the country will be about 2 million bales which will be a very tight position.

As on today the situation is like that the 3 million bales was opening stock arrival so far up to May 12 is about 34 million bales, 7.7 million bales are import total supply is about 37.8 million bales, consumption so far which has taken place up to May 12 we have taken about 20 million bales and export, which has already taken place is about 6 million bales then the country is left out with about 11.7 million bales out of this about 5 million bales to 5.2 million bales are unsold stock with the ginners, states and multinational and the stock with the mills is about 6.5 to 6.7 million bales, which is equivalent to about 72 to 74 days consumption. So mills this year in the country as a whole are better covered in terms of cotton.



Vardhman Textiles Limited
May 15, 2018

Overall we are estimating that in the month of going say beyond June 15, July-August country position on cotton will be quite tight and prices in the gap, which is now between the Indian price and the international price which is to the extent of about more than 12 cents a pound it will reduce so we are expecting increase in prices going forward. Thank you.

Moderator: Thank you very much. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Resham Jain from DSP BlackRock. Please go ahead.

Resham Jain: Thank you. I have three questions, first is on capex, so FY2018 if you can give a total capex, which you have done and also the break up within yarn and fabric and also similarly for FY2019 and FY2020?

Neeraj Jain: For FY2018 the total capex is around Rs.300 Crores out of which about Rs.105 is towards yarn business and remaining is for fabric.

Resham Jain: Similar for FY2019 and FY2020 Sir?

Neeraj Jain: FY2019 and FY2020 in totality capex would be in the range of Rs.1400 or so and it will be equally divided.

Resham Jain: So you are saying Rs.700 in yarn and Rs.700 Crores in fabric?

Neeraj Jain: Yes.

Resham Jain: So how much spindles we are adding with this Rs.700 Crores of capex in next two years?

Neeraj Jain: We will be adding close to about 100000 spindles or little more than 100000 equivalent spindles.

Resham Jain: So Sir it is like Rs.70000 per spindle is it?

Neeraj Jain: Not really but in addition to that there is also modernization going on, for example last year we spent about Rs.100 Crore on modernization. Those plants will always part of Rs.700 Crores.

Resham Jain: Sir what will be our total fabric capacity now?

Neeraj Jain: As of now it is close to about 140 million meters per annum, which we intent to increase to about 180 million meters in next two years' time.

Resham Jain: Okay, is there any timelines when you will be having some of this coming on stream?



Vardhman Textiles Limited
May 15, 2018

- Neeraj Jain:** The majority production lines will be ready by March 2019 but I think after that it will take may be a six months to one year before we are in a position to utilize them fully.
- Resham Jain:** So FY2019 you will not have any new capacity coming in?
- Neeraj Jain:** Very small, I mean the overall in terms of the topline may not.
- Resham Jain:** Sir secondly just wanted to understand from the overall FY2018 EBITDA perspective operating profits, how much will be contributed by yarn?
- Neeraj Jain:** We generally do not disclose or share the results of yarn and fabric separately.
- Resham Jain:** Okay, but any approximation if you can give that yarn contributes roughly what percentage of your total profits?
- Neeraj Jain:** No not really, I am sorry. I can share the topline only between 65% for the yarn 35% for the fabric.
- Resham Jain:** Are the margins very different of yarn and fabric if you can give just some color compared to FY2017 this year margins are significantly low?
- Neeraj Jain:** I can share the more drop is on the yarn side.
- Resham Jain:** Okay, and fabric was more or less stable is it?
- Neeraj Jain:** Yes.
- Resham Jain:** Sir finally one last question, is on China export part, which you mentioned that we have seen a good traction in terms of export to China and with Chinese inventory, cotton inventory coming down continuously in last three four years, you feel that the kind of export of yarn, which we have seen in 2013-2014, we may see a similar increase in yarn exports in FY2019?
- Neeraj Jain:** There is one difference in between last five years; there is lots of pests, which has been added by Vietnamese spinners. So they have also become a very strong contender for export of yarn to China so the China may import similar kind of numbers but whether India will supply or Indian and Vietnam and other countries will supply together is something where our competitiveness will tell us.
- Resham Jain:** Right and for Vardhman specifically last time you mentioned it in terms of competitiveness and all specifically Vardhman is giving at a significantly competitive price and that is why whenever the demand comes back in China our exports can grow much faster?



Vardhman Textiles Limited
May 15, 2018

- Neeraj Jain:** No we already have a very good share of export to China and I feel that would continue.
- Resham Jain:** And this recent rupee depreciation does it helps us in yarn exports vis-à-vis Vietnam?
- Neeraj Jain:** Definitely, it helps us, because one the margin becomes a little better to our overall competitiveness not only China but everywhere that improves.
- Resham Jain:** Sir any specific targets you have in mind FY2019 and FY2020 in terms of overall revenue as well as profitability?
- Neeraj Jain:** The revenue may not improve in a bigger way because in any case most of the capacity utilization is running at a full capacity, revenue we have always been maintained our long-term average of 18% to 22% EBITDA revenue on the sales and I think last year has been an exception we still like to commit to the same.
- Resham Jain:** Thank you very much Sir and all the best.
- Moderator:** Thank you. The next question is from the line of Prerna Jhunjunwala from B&K Securities. Please go ahead.
- Prerna Jhunjunwala:** Thank you for the opportunity and congratulations for good set of results. Sir I would like to understand the yarn spreads currently and how are they likely to as per your expectation how are they likely to be in future like next six months timeframe?
- Neeraj Jain:** Normally our spreads we always feel this are in the range of about 97 cents to 1 dollar and 10 cents. So currently it is approximately about one dollar and going forward on the current cost of cotton it may come down if the Indian cotton prices increases which could be a one of the possibility.
- Prerna Jhunjunwala:** So which means the yarn prices should fall down what you are saying?
- Neeraj Jain:** Yes, yarn prices will not fall but the spread will come down if the raw material goes up.
- Prerna Jhunjunwala:** Okay and Sir any colour on Chinese policy that you have got with its reducing inventory?
- Neeraj Jain:** Chinese they do not have any intention to give additional quota for imports may be some processing quota they may give based on the industry requirement there are but definitely atleast the current year import of about 1.2 million ton which is I am saying cotton year 2017-2018 in 2018-2019 it is projected to be 1.5 million ton but in 2017-2018 we are not finding any major increase in Chinese cotton import.



Vardhman Textiles Limited
May 15, 2018

- Prerna Jhunjunwala:** Okay so no major increase in cotton imports but their inventory?
- Neeraj Jain:** It will be increasing.
- Prerna Jhunjunwala:** Okay, their inventory position as you mentioned earlier that it is declining so when would be the year that you think that Chinese will have to revise their policy if they go at the current rate?
- Neeraj Jain:** See China definitely there will be a big difference between the consumption and production going forward. Their consumption for the current year is about 8.7 million ton and it will continue to grow at a very slow pace but the production in the current is about 5.7 to 5.8 million ton and going forward we are expecting that their production will remain in the range of about 5.5 to 5.8 million ton so they will be short of three million tons, definitely after 2018-2019 onwards China presence in the international market will increase.
- Prerna Jhunjunwala:** Okay, China's present in the international market will increase what would it mean Sir?
- Neeraj Jain:** It means that the import productivity will increase from.
- I.J. Dhuria:** Import will increase from raw cotton.
- Prerna Jhunjunwala:** And Sir what is your expectation for acreage in 2018-2019 for India?
- I.J. Dhuria:** India this year it was 12.3 million hectares, next year the way the things are now we are looking at we are not finding any major increase in cotton cultivation because the farmers they were better placed in terms of paddy rather than cotton. In Maharashtra already there is a fear of pink bollworm. The farmers we are not expecting any increase in Maharashtra. Telangana also same the government is discussing import of cultivation and Gujarat yes, the area will there can be improvement over the current year so overall scenario which will be building at the moment is cotton cultivation for 2018-2019 will be around 11.5 to 11.9 million hectares, against current year of 12.3.
- Prerna Jhunjunwala:** And Sir last question would be the earlier participant had asked the question but I would like to know what is the capacity increase in FY2018 that we have seen?
- Neeraj Jain:** FY2018 there was no capacity increase happened.
- Prerna Jhunjunwala:** Okay, neither in fabric nor in yarn?
- Neeraj Jain:** Yes.
- Prerna Jhunjunwala:** Thank you Sir.



Vardhman Textiles Limited
May 15, 2018

- Moderator:** Thank you. Next question is from the line of Arjun Sengar from Reliance Mutual Fund. Please go ahead.
- Arjun Sengar:** Good evening Sir. Sir you had mentioned earlier in the call that you are still maintaining your margin guidance of 18% to 22% but the previous participant was asking you about the margin outlook so there you said that the cotton prices are likely to increase and if that happens then the margins of spread will decrease so under what scenario the margins can increase beyond this level that you have seen in this quarter?
- Neeraj Jain:** I said the margins on this spot basis may come down instead of raw cotton.
- Arjun Sengar:** Okay. So for you that would be an inventory gain?
- Neeraj Jain:** Yes. The question was related to the industry in general.
- Arjun Sengar:** Okay and of course the cotton prices would go yarn prices would go up in line based on demand and supply?
- Neeraj Jain:** If not fully atleast partially I think in generally I have seen partially the yarn prices go up.
- Arjun Sengar:** Sure. Secondly this particular quarter you had 5% to 7% volume degrowth versus the same quarter last year is there any particular reason for this?
- Neeraj Jain:** There is no degrowth in terms of the volume per se, it was more on the prices of our products where the topline is looking at a lower but in terms in volume etc., we were maintaining at the same.
- Arjun Sengar:** I am talking based on the volume numbers we had supplied the sales numbers, in a volume disclosure that you made, I am talking based on that where there is a 5% to 7% degrowth? But I should not read too much into that?
- Neeraj Jain:** No it is not really, quarter-to-quarter small changes will happen. If you look at the full year because sometime the Q4 can be over or less, if you look at the full year from 203 million Kgs we have increased to about 206 million Kg.
- Arjun Sengar:** Correct. Thirdly you mentioned that over the last two months your exports to China has been good is there any particular reason for that, is the depreciating coming to the end?
- Neeraj Jain:** The demand from Chinese so if the demand is good I think the overall volume for everyone, I mean the overall export from India increased to China.



Vardhman Textiles Limited
May 15, 2018

- Arjun Sengar:** It is basically reward cum China and nothing else specific about it?
- Neeraj Jain:** Yes.
- Arjun Sengar:** Sir like you are saying almost China would run down its cotton inventory and it will participate in the market so Sir do you think their purchases would be more skewed towards cotton or cotton yarn?
- Neeraj Jain:** It is yet to be seen because, it is the both I think because they already have put in so many spinners and the new spinners also which have come in the Xinjiang area so partially they will be importing cotton partially they might continue to import the yarn as well.
- Arjun Sengar:** Sir one more question so can you give us a other income breakup for the full year as in investment income versus any other one off that you have?
- Neeraj Jain:** Investment income is around 135 Crores out of the total other income.
- Arjun Sengar:** Thank you Sir. That is it from my side. I will get back the queue. Thank you.
- Moderator:** Thank you. The next question is from the line of Dhaval Shah from Girik Capital. Please go ahead.
- Dhaval Shah:** Sir just want to reconfirm you mentioned there would not be volume growth in yarn and fabric both for FY2019?
- Neeraj Jain:** Yes, that is true. Some small growth can happen but not a big one.
- Dhaval Shah:** Okay so that would be in the range of what 3% to 5% or less than that?
- Neeraj Jain:** No I think this much can happen.
- Dhaval Shah:** Okay. And in FY2020 what sort of capacity addition are we expecting?
- Neeraj Jain:** From the company processing we are adding of almost 35-40 million meter processing capacity and on the yarn side also I think our overall production is going to be almost 80 tons to 90 tons per day.
- Dhaval Shah:** Okay and our fabric would be 180 million correct?
- Neeraj Jain:** Yes.



Vardhman Textiles Limited
May 15, 2018

- Dhaval Shah:** And so how much is our gross debt and cash on book as on March 31?
- Rajeev Thapar:** Gross debt as of March 2018 is about 2300 Crores including short term and long term both and investment current investments are about 1400 Crores.
- Dhaval Shah:** 2300 of gross debt and 1400 Crores of investment?
- Rajeev Thapar:** Yes.
- Dhaval Shah:** Okay. Last question so our current revenue mix you mentioned is 55 yarn and 35 fabric say over by next three to four years what is the number we are looking at?
- Neeraj Jain:** This number will definitely in favour of fabric so may be this can increase 60:40 with the current expansion once the current expansion is fully operated.
- Dhaval Shah:** Okay. So how much would it be the delta on the margins because of since fabric has a better margins and yarn conversion how much would be, how should we look at it?
- Neeraj Jain:** We already requested that the separate delta on the margins we do not share.
- Dhaval Shah:** I agree to your point Sir but generally you mentioned, you always give a range of 18% to 22% EBTIDA margin.
- Neeraj Jain:** As of, because still there will be lots of competition also. As of now we are not revising our overall long-term EBTIDA margins so we are still seeing we will be maintaining it between 18% and 22%.
- Dhaval Shah:** Thank you and good luck.
- Moderator:** Thank you. The next question is from the line of Bharat Subramanian from Sundaram Mutual Fund. Please go ahead.
- Bharat Subramanian:** Thanks for taking my question Sir. Sir in terms of fabric capex if we recall last year we were under the impression that there was a 600 Crores capex over a period which should take on the grey side it will take also 210 million meters so is there been any change to that capex plan Sir?
- Neeraj Jain:** No we are still maintaining the same. The only thing is we are saying now the fabric processing will also increase from 140 to 180 million meters.
- Bharat Subramanian:** Okay so this is the processing capacity will go to 180 and grey would be at 210?



Vardhman Textiles Limited
May 15, 2018

- Neeraj Jain:** Grey we are still looking at whether we have to expand on the gray or we maintain it we may reduce it as well.
- Bharat Subramanian:** Okay so to that extent 600 Crores also be revised on this.
- Neeraj Jain:** Majority part may still come so may be the downside may happen may be another 200-300 out of that that is all, maximum on sale.
- Bharat Subramanian:** Okay and in terms of yarn dyeing capacity there was a plant increase that as well how I that shaping up Sir?
- Neeraj Jain:** Yarn dyeing capacity we are not increasing in a very big way. You said fabric or yarn dyeing?
- Bharat Subramanian:** No, yarn dyeing we were at close to 18-20 million meters if I am not wrongs so that was also supposed to be?
- Neeraj Jain:** Yarn dyed fabric we tend to increase it may be to 25 lakh meters a month so that is the plan but again it is more rather than on the capacity side it is more on the utilization side if we can sell, we have the facility to do that so I think that is more on a marketing challenge how this goes in the next one or two years.
- Bharat Subramanian:** So what kind of challenges are you facing Sir, because while we see from a different perspective but in terms of scaling up on the fabric side is that more to do with kind of adding on to the clientele or on the export side is it something which needs to fall in place for us?
- Neeraj Jain:** The biggest success to this business is how much new development we are in a position to come up every year and then based upon that in terms of the clientage in terms of the customers, I think there are lots of people who are interested in this, so the more challenge comes from 1) the new product new development, 2) more from the logistic how fast can be delivered to the customer in terms of the supply side and those are more challenges otherwise in terms of selling the basic products I do not think there is a big issue on that.
- Bharat Subramanian:** Sir but in terms of fabric capabilities are there any gaps currently because sometime back we did have gaps on the printed fabric side but I think with that bridged is there anymore gaps?
- Neeraj Jain:** As such on the apparel fabric side there is no technological gap as of now. It is only our capability how much can be developed in terms of the new products and delivered.
- Bharat Subramanian:** Okay. Sir and on the cost side if you can just throw some colour in terms of how are the cost behaving especially on the power side? Is there anything that we are seeing changing between FY2018 to FY2019?



Vardhman Textiles Limited
May 15, 2018

- Neeraj Jain:** Not really. We are there basically in three states Madhya Pradesh, Punjab and Himachal, so in Madhya Pradesh the new tariff has already come where they have announced virtually the same tariff, Himachal also almost same tariff and Punjab is also almost same tariff with a miniscule increase less than one percent or so, so I think on the power side all three states have already announced the next year's power prices.
- Bharat Subramanian:** Okay and lastly in terms of our exports and export cover that we take typically close to 30% of a yarn is exported out Sir?
- Neeraj Jain:** Yes.
- Bharat Subramanian:** And how do we cover in terms of our exposure over there?
- Neeraj Jain:** This is again it depends upon the view. So we take so I think we keeping on taking a view based upon our own judgement on the currencies, so there is no fixed policy that we have to cover for a year or we have to cover it for a month but we keep on taking the view very often and on that basis we take that call.
- Bharat Subramanian:** Fine. Sir and lastly on the garment side, anything we should counter in terms of scale up in a immediate two years or it is sometime away?
- Neeraj Jain:** Garment again it is a part of though it is a subsidiary it is part of a different company but I think over days things are settling down so I do not see any major improvement or major increase in the sales coming in next one to two years but I think it is only beyond that definitely our operations are becoming better our costs are coming down and our overall acceptability of the product in the market is increasing but I still find another one-one and half year for us to consolidate that business before we take a final call whether we have to ramp up and if yes, how much.
- Bharat Subramanian:** Okay and on the spinning side, if at all there is any opportunity to acquire a spindles depending on vintage would that be a part of a strategy currently or it depends on the asset?
- Neeraj Jain:** No definitely we will keep on looking at that so there is nothing barring in terms of the credit call on that where we are looking at it actively but as of now there is no active proposal that is going on in our mind. But if something comes good we are definitely we might look at that.
- Bharat Subramanian:** That is from my side. Thank you.
- Moderator:** Thank you. The next question is from the line of Sameer Raj from Reliance Mutual Fund. Please go ahead.



Vardhman Textiles Limited
May 15, 2018

Sameer Raj: Good evening. Thanks for taking my question. I just wanted to understand currently how much of yarn we produce? It is used in-house for fabric capacity?

Neeraj Jain: Almost 35%.

Sameer Raj: Sir currently you said fabric is overall 35% then the yarn is 65% so by when you will see both businesses becoming equal?

Neeraj Jain: With the current expansion in my view the this threshold may be 60:40 or 57-58 or 42 but for that I think we will have to look at further phase of expansion so there is nothing on the plan as of now beyond the projects which have been undertaken as of now.

Sameer Raj: Sir overall in terms of the quality of business the predictability of the business you think fabric business is much better than the yarn business currently?

Neeraj Jain: I would not say much better, it is better surely.

Sameer Raj: Sure. Sir lastly Vardhaman historically has been very aggressive company in terms of the way they expanded the capacity and the way build up the scale in this business but last years we have been seeing very conservative and rightfully so looking at the overall environment so if one takes a medium term view; how do we get to the next level of growth in Vardhaman, what is the thinking on that?

Neeraj Jain: See you are right, we have been expanding aggressively, if you look at the period between 2005 and 2012-2013 because there we were finding lots of opportunities in the business but the way capacities started increasing in India we started feeling that next two three four years are going to be very difficult for this spinning industry to make money and we stopped expanding our business. I think once the overcapacity which has been created into the country that gets absorbed or that gets used, at that stage we might start looking at whether we acquire something or we go in for the organic growth only but I think as of now still okay we are increasing some of our spinning capacity, but that is more to support the expansion on the fabric side. So per se for the market we are not increasing our spinning capacity even as of now also because margins are not justifying the new investments even today also. It is only once the margins are better it is not very difficult to make up the plan for a spinning expansion that can be done at a fastest pace.

Sameer Raj: We think the next phase of expansion at least a couple of years away till this new capacity gets in?

Neeraj Jain: In next two three years because in any case this expansion base will start, we will be commencing in one year's time and then it normally takes one to two year's time to consolidate



Vardhman Textiles Limited
May 15, 2018

this kind of the large expansions to 1500 Crore in terms of the size will be almost capital employed is almost 25% of the size.

Sameer Raj: Okay, so whenever the expansion is decided we would have enough land across all our plants for future expansion, we do not have to acquire necessarily new lands?

Neeraj Jain: If we have to acquire a plant I do not think that is really difficult in case you decide to go in for that.

Sameer Raj: Right. Fine Sir that is all from my side. Thank you so much.

Moderator: Thank you. The next question is from the line of Mohit Jain from Care Portfolio Managers. Please go head.

Mohit Jain: Sir on the Q4 this margins this ratio is quite better as compared to previous quarters so the reason is low inventory cost?

Neeraj Jain: Majority reason was the lower raw material prices majority reason was lower raw material prices compared to the Q3.

Mohit Jain: Sir with this crude oil rising that of course synthetic yarn the pricing would be dependent on that how our prices are linked to the synthetic yarn is there any impact?

Neeraj Jain: There is an impact because these produce lots of blended yarn where we use the polyester or we use some acrylic also so those fiber prices are directly linked with the crude and our yarn prices are also we try to look at imparity with the increase in the raw material prices.

Mohit Jain: So how are the synthetic yarn and the cotton yarn are linked in terms of the prices?

Neeraj Jain: They are I mean in terms of the margins they are quite comparable because these products are switchable from one product to the another easily so anywhere where the spinner gets a better margin we try to shift to that so I think between the two in terms of the margins they work relatively very close to each other.

Mohit Jain: In terms of, you know you said about passing on the pricing cost you said partially you would be able to, I mean somebody else have the similar.

Neeraj Jain: Everyone will try to pass on the full but whether they are in a position to pass on full or not that depends upon the international parity but I think within the country everyone tries to pass on so if not full partially definitely gets paid up.



Vardhman Textiles Limited
May 15, 2018

- Mohit Jain:** And what would be our breakup between blended yarns versus cotton yarn?
- Neeraj Jain:** Our blended ratio will be close to about 35% or so, 30%-35%.
- Mohit Jain:** 30%-35% will be the blended on and balance would be the cotton.
- Neeraj Jain:** Yes.
- Mohit Jain:** Okay. And just a last question with respect to the Mr. Sachit Jain's resignation so who will be taking the role of him?
- Neeraj Jain:** Sachit's role primarily in the company was more on the corporate office side which was all the departments like Commercial, Finance, MIS, Audits etc., so I think already the CFO, because Sachit has got very busy on steel side so CFO will be in a position to take major part of that role.
- Mohit Jain:** Okay, so there is no separate need of additional person is what we believe.
- Neeraj Jain:** Other management members if required they can support but I think it is more on the CFO's role, which he will be taking.
- Mohit Jain:** Thank you. That is it from my side.
- Moderator:** Thank you. The next question is from the line of Sameer Raj from Reliance Mutual Fund. Please go ahead.
- Sameer Raj:** Just one followup. Regarding this forex cover, which we take normally, as we stand today how much we would be covered Sir, roughly?
- Neeraj Jain:** There are two ways. Normally we look at on the yarn side, our yarn is sold for one to one and half months most of the time. So those kind of coverage we surely do and whatever is already exported we try to cover that because generally I mean most of the times if yarn is sold for let say one and half two months that will be the coverage but may be another one or two months that depends upon the view one has to take at any stage against the forward or the future contracts.
- Sameer Jain:** Yes, this current rupee depreciation which we have seen will it benefit only on the future sales?
- Neeraj Jain:** Yes, of course on the future sales, as I mentioned the general business is only for one and half month's coverage. I think any business which we do this should be beneficial in case the prices does not come down in the US terms.



Vardhman Textiles Limited
May 15, 2018

- Sameer Jain:** Right. And the guidance, which you have given on margins, is after taking into account depreciation or any gains on depreciation would be over and above that?
- Neeraj Jain:** No. As I said the margins generally will be ranging between 90 cents to 110 cents to 110 cents if it happens it takes care of all other improvement of yarn reduction on the cotton or the improvement in the realization because of the depreciation of rupee etc., 90 cent when it comes I think everything is against so it will be varying in between depending upon the three factors.
- Sameer Jain:** Thanks.
- Moderator:** Thank you. The next question is from the line of Gagan Thareja from Kotak Investments. Please go ahead.
- Gagan Thareja:** Good evening. You indicated that in the domestic market by June – July cotton prices might come under pressure and may rise, and this might speed the yarn spreads. What I want to understand is that in the international market how do you see cotton price movements because I would presume that domestic yarn prices are finally linked to international yarn prices, which in turn are linked to international cotton prices and not domestic?
- Neeraj Jain:** I think what we intent to say is not only that the Indian prices may increase but I think more important will be the price gap between Cotlook and Indian prices will narrow, as of now the gap is about 1200-1300 basis points, which Mr. Dhuria mentioned. There are two ways of looking at it, one the international prices comes down and Indian prices remains the same level so that difference of 1200-1300 can come down to 500-600 or else the international remains same in that scenario the Indian cotton prices will start increasing because this gap of 1200-1300 is very huge gap, which still ultimately keep on narrowing down in next one or two months time.
- Gagan Thareja:** Okay but the movement in cotton price, which you see in domestic market, may not be fully reflected in yarn and the yarn would react to international cotton prices?
- Neeraj Jain:** That is true. This happened last year where the Indian cotton prices increase in a big way where but we could not pass it on so the spinners had to take a big hit last year. I agree with you.
- Gagan Thareja:** Secondly your inventories have jumped significantly if I compare last year ending vis-à-vis this year ending, last year ending I presume the raw material inventory was lower than it normally tends to be, can you just give some idea of how much in terms of production base how much inventory do you have for cotton right now?
- Neeraj Jain:** Normally we do not share the number of days but I think I can only say it is better than the last year.



Vardhman Textiles Limited
May 15, 2018

- Gagan Thareja:** Both in terms of yarn and fabric if you could give us some idea of your end market in both domestic and exports and you did indicate that currency is right now favourable but would it not lead to renegotiation of contracts in the short timeframe?
- Neeraj Jain:** There is no renegotiation happens, so whatever is the business happened that is happened. Rarely anyone come from the renegotiation, but yes on the when this started happening, then their expectation may be reduce the prices but that is purely a negotiation power on the supplier or on the customer side.
- Gagan Thareja:** Yes, so in terms of demand supply, as it currently exists do you feel that bargaining power stands with you or on the other side?
- Neeraj Jain:** Since the overall export from India is doing well, so as of now I do not think there are any spinners are desperate to reduce the prices.
- Gagan Thareja:** Because in China you indicated there is a fairly significant creation of spinning capacity, which is not fully utilized yet, if that is the case...?
- Neeraj Jain:** New capacity created is fully utilized but the older capacity, which is not really very efficient there are concerns on that only. The new capacity, which are created they are using it fully.
- Gagan Thareja:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Raghav Mittal from Locus Investment Group. Please go ahead.
- Raghav Mittal:** Good evening. In the most recent budget Government of India has pegged the minimum selling price of cotton crops at 1.5 times cost. So can you throw some light on what the current market price is and how much price do you foresee happening and how do you foresee the impact of price increase on India's competitiveness? That is my first question.
- Neeraj Jain:** Government is yet to announce the MSP for the Kharif crop for the year 2018-2019. Yes, as per the policy which they have indicated that it will be multiplier of 50% of the input cost, but the input cost or input cost plus on its on labour cost or whereas the farmers are demanding it has to be including the lease rent of the land so the government is yet to come out with but looking to the last year...
- Raghav Mittal:** Historically it has happened A2?
- Neeraj Jain:** A2, I am talking about A2 plus the labour cost, if it is a multiplier of C2, 50% then MSP will be Rs.6000 plus, if it multiplier of say 50% of A2 plus then it will be about Rs.4900 a quintal. And



Vardhman Textiles Limited
May 15, 2018

already it is almost close to 50% of input cost only, which is about Rs.4000. The government is yet to come out with their decision but definitely they have told us that they will not allow the industry to suffer on account of this. Already they are working with the planning commission NITI Aayog to see that how they can give direct subsidy to the farmers, which is being given in MP and Telangana government has already announced about it giving direct subsidy to the farmers. In that way then there will not be any distortion from the market perspective.

Raghav Mittal: In case there is a direct subsidy and the market price goes from the current Rs.4000, and you need to have? In this scenario 20% price increase, does it remain competitive?

Neeraj Jain: A1 at Rs.5000 our say cost will be around ginning cost and everything it will be about Rs.42000, Rs.42000 means per candy, which means today it comes to be about 80 cents a pound. It will be workable. India today recording with 80 cents so we are not concerned but if you see tomorrow the international prices comes down and the Indian cost is at 80 cents then it will be a concern.

Raghav Mittal: Can you just reconcile 4900 to Rs.42000 per candy? This is including the ginning cost?

Neeraj Jain: Yes, that is right. 4900 is the cost of Kapas where the cost of ginning it gets converted into the cotton which is sold as a lint, so the cost of lint where the raw cotton which is used by the mills that is translated into the 42000 per candy.

Raghav Mittal: Okay so that comes to Rs.120 per kg. So you are saying it is still workable?

Neeraj Jain: Yes.

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

Avi Mehta: Sir I just wanted to understand so if I heard you correctly the margin expansion is coming on the back of yarn spread expansions largely because of the export business kind of or even China exports coming in, would it be fair to kind of do I look at the yarn spread trend should continue. Is that a fair understanding or is that a fair reading and second question linked to there is the stock MES reinstatement that has happened, is there a change in incentive structure that has been talked about how do you see this playing out or helping growth as we go forward?

Neeraj Jain: One, yes, it looks like the, it depends upon whether the yarn demand continues or not but it looks like because if now the demand is started increasing there could be a possibility that business sustains. On the MES or on the restructuring I think the industry is talking off only now the embedded taxes, which are not reimbursed, to them. So whether they give it in form of MES or they give it in form of an incentive or whether they will give it or not it is question mark, but yes whatever are the embedded taxes, which are still not refunded the industry is talking because all



Vardhman Textiles Limited
May 15, 2018

those embedded taxes definitely reduces the competitiveness of any export or any commodity from the country.

Avi Mehta: Then the related question is if you look at this quarters' margins which is about 18 % EBTIDA margin would it be fair to say that the quarter average is lower than the March number is that the way I should look at it?

Neeraj Jain: You are asking too technically a question.

Avi Mehta: Okay. Sir the second thing was on the cotton price environment especially given the recent USDA report, which talks about the stock to use kind of coming off and is given a very lower number, is it something that suggest that international cotton prices might see an uptick or do you think it is too early to kind of take that call?

Neeraj Jain: Actually globally the cotton consumption is increasing particularly in 2017-2018 the cotton consumption has gone up by more than 4% over 2016-2017 and if we look at last five years the cotton consumption has gone up from 22 million ton to almost 26 million ton and they have also USDA in their latest report they have projected in 2018-2019, the world is likely to grow cotton consumption by 3.54% so there is going to be a gap between production and consumption if it is going to remain there definitely world prices are likely to remain high.

Avi Mehta: So the likelihood is of I mean looking of that would suggest that the inflationary environment what is likely that will be a fair understanding?

Neeraj Jain: Yes, right.

Avi Mehta: And lastly Sir, the tax rate could you give any guidance on what number should we take as we go forward because this year was only 22%?

Neeraj Jain: This year actually it was in the range of 23%, year as a whole and coming year I think it take average of 25% to 26%.

Avi Mehta: Okay, so we should take that number as we go forward, 25%-26% should be the number?

Neeraj Jain: Yes.

Avi Mehta: A clarification you said 18% to 22% margin guidance is what it should kind of taken for the next year depending...

Neeraj Jain: I am not saying next year this is generally our long-term guidance so in a year it happens or not this is what we are maintaining that we will like to maintain for the medium to long term.



Vardhman Textiles Limited
May 15, 2018

- Avi Mehta:** And the variation would depend on the yarn spreads that are what would be the key driver?
- Neeraj Jain:** It is not that fabric there is no variation over there also the variations are there.
- Avi Mehta:** That is what is going to be the key driver what happens in the year but we kind of seek to maintain in that range is that the understanding that we should look?
- Neeraj Jain:** Yes.
- Avi Mehta:** Okay Sir.
- Moderator:** Thank you. The next question is from the line of Akhil Kalluri from Franklin Templeton. Please go head.
- Akhil Kalluri:** Sir thanks for the opportunity. Just one followup on the fabric side; sir on the processing side you highlighted that our capacity is about 140 million meters against which our production was about 120 this year in March in FY2018 and you guiding for a probably a 3% -4% growth on the processed fabric side as well so Sir is a marketing capability the key constraining factor here in terms of the growth on the process fabric side?
- Neeraj Jain:** Both marketing as well as the production capability because there is lots of variation on the product range so depending upon what product has to be rate but definitely marketing is one of the key factor for the sale of product.
- Akhil Kalluri:** So Sir, when we are expanding capacities to 180 probably a year from now what is giving us a confidence of facing that incremental capacity as well?
- Neeraj Jain:** Again one is the overall capacity, which is a rated capacity which is 140 million meters but again because of the variation because of the seasonality and different products there is some variation which is keep on happening. Two, we are looking at lots of other opportunities in the different segments where we are relatively less for example processing will be increasing, we are increasing the capacity on the blend side also, we are increasing our sales on the stretched fabric also so we still feel and find that there is an opportunity, which is there as a good fabric producer and we should be in a position to sell the same.
- Akhil Kalluri:** Understood Sir. Thank you.
- Moderator:** Thank you. The next question is from the line of Raghav Mittal from Locus Investment Group. Please go ahead.



Vardhman Textiles Limited
May 15, 2018

- Raghav Mittal:** There was some disturbance in the line. I just wanted to confirm one thing the ginning cost, which is mentioned for Rs.2000 per candy that is 1.5 times or that is the current market price?
- Neeraj Jain:** No as of now there is current market price also and going by the 50% there will be the converted price also.
- Raghav Mittal:** Okay but you also mentioned that the current market price is Rs.4000 per quintal for Kapas and...
- Neeraj Jain:** No, 4000 is not the market price 4000 per quintal is the current minimum support price.
- Raghav Mittal:** Okay.
- Neeraj Jain:** The current Kapas prices are almost Rs.4000-Rs.5000 only, 4500 to 5200 only.
- Raghav Mittal:** So it is still around 4500, then 1.5 times 8 plus FY will be more than that?
- Neeraj Jain:** No.
- Raghav Mittal:** I am just trying to reconcile the Kapas price with the ginner's price.
- Neeraj Jain:** See 1.5 time is on the cost basis so the current MSP of 4000 already is taking part of already also so with the 50% I think the cost as of now is close to about Rs.3200 or so, so 1.5 times will become 4800 to 4900, which is equivalent to the current by chance it is equivalent to the current market price of Kapas as well.
- Raghav Mittal:** Okay and this is assuming the least cost basis?
- Neeraj Jain:** No this is not the least cost basis including owners own labour cost.
- Raghav Mittal:** I mean do you refer this to 8 x 8+7?
- Neeraj Jain:** It is not including the lease rent of the land.
- Raghav Mittal:** Okay so this is A2 plus FL, just excluding the lease.
- Neeraj Jain:** Yes.
- Raghav Mittal:** Okay. Got it thank you so much.



Vardhman Textiles Limited
May 15, 2018

- Moderator:** Thank you. We have a follow up question from the line of Gagan Thareja from Kotak Investments. Please go ahead.
- Gagan Thareja:** Thank you. Just wanted to understand that capex guidance of 1400 Crores spread over next two years how shall be funding be done what sort of debt equity are you comfortable with?
- Neeraj Jain:** We will be raising debt, which is eligible for MP state subsidy so it could be in the range of say about 50% of the total capex.
- Gagan Thareja:** Okay. And with the subvention what would be the effective interest cost on that?
- I.J. Dhuria:** Actually these loans are yet to be tied up so they are under process.
- Neeraj Jain:** There is a state subsidy of about 5% on the spinning and 7% on the fabric and processing. So depending upon at what price we get the loan and this loan, which is eligible under the state subsidy, will not be more than 50% of the capex.
- Gagan Thareja:** Thank you.
- Moderator:** Thank you. Ladies and gentlemen as there are no further questions on the participant I now hand the conference over to the management for closing comments. Thank you and over to you!
- Neeraj Jain:** We thank you everyone to join the call and as we mentioned definitely the industry is pass through a very difficult time but as management we are always looking at the whatever the best possible for us to do in terms of the opportunity in terms of the product portfolio or in terms of the operations or the cost part, we are very well aware and we are really working hard to see to it that we can pass through this difficult time without having any major difficulties. I am sure as the things are passing as the consumption in India would be increasing as the incentives given by the states are coming down industry will definitely take a better shape in next to three to four years and which should be definitely we look forward for a better time this is only our expectation and I really appreciate and thank all the investors to be a part of Vardhman and joined us on this call. Thank you very much.
- Moderator:** Ladies and gentlemen on behalf of IIFL Capital Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.