Vardhmān
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VARDHMAN TEXTILES LIMITED

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Ref. VTL:SCY:JULY:2022-23 **Dated: 28-July-2022**

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SUB: TRANSCRIPT OF EARNINGS CONFERENCE CALL OF VARDHMAN TEXTILES LIMITED – Q1 FY23

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 25th July, 2022 to discuss Q1 FY23 results.

Kindly note and display the notice on your notice board for the information of the members of your exchange and general public.

Thanking you,

Yours faithfully,
FOR VARDHMAN TEXTILES LIMITED

VARDHMAN TEXTILES LIMITED LUDHIANA

(Sanjay Gupta)
Company Secretary

"Vardhman Textiles Limited Q1 FY 23 Earnings Conference Call"

July 25, 2022

MANAGEMENT: **MR. NEERAJ JAIN - JOINT MANAGING DIRECTOR, VARDHMAN TEXTILES LIMITED**
MR. SUSHIL JHAMB - DIRECTOR RAW MATERIALS, VARDHMAN TEXTILES LIMITED
MR. RAJEEV THAPAR - CFO, VARDHMAN TEXTILES LIMITED
MR. MUKESH BANSAL - SENIOR VICE PRESIDENT, FABRIC MARKETING, VARDHMAN TEXTILES LIMITED
MR. VARUN MALHOTRA - HEAD OF FINANCE, VARDHMAN TEXTILES LIMITED

MODERATOR: **MR. ABHISHEK NIGAM - BATLIVALA & KARANI SECURITIES INDIA PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Vardhman Textiles Limited Q1 FY'23 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 "*" then "0" on your touch tone phone. Please note, that this conference is being recorded.

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

Abhishek Nigam: Hi, everyone. Good afternoon. Welcome to the Vardhman Textiles Q1 FY'23 earnings conference call. And from the management team, we are joined today by Mr. Neeraj Jain, who is the Joint Managing Director; Mr. Sushil Jhamb, Director Raw Materials; Mr. Rajeev Thapar, CFO; Mr. Mukesh Bansal, Senior Vice President, Fabric Marketing, and Mr. Varun Malhotra, Head of Finance. And without any further delay, I'll hand it over to management for opening remarks.

Neeraj Jain: Good afternoon, everyone. Thank you for joining the call. We have already declared the results, which I'm sure all of you would have seen, gone through by this time. So, first quarter has still been reasonably okay, because of a couple of reasons. One, I think every factory had some cotton available to them, which was procured when the prices have not gone to the peak. Also, there were pending contracts, I think with every one, which were getting executed in this period. So as a result of that, and they were generally on a higher prices basis, as a result of that, I think the margins were also better. Three, the situation kept on becoming challenging. And I think May, June, July, things were becoming more difficult or more challenging as the time passed.

So, the first quarter numbers still look reasonably okay, and the situation after that is that the prices internationally, cotton prices started coming down. And we saw an inverse of almost USD0.25, USD0.30 between July and December, New York future. By the time New York July was over, December, we started looking at, one, inverse, also, the prices started coming down, not only in cotton, but I think lots of other commodities, because the overall inflation issues, concerns and the rate of interest, which started increasing practically everywhere.

We saw a peak of USD1.55 and USD1.56 in the month of June and July. And after that, as on today prices are close to USD0.90, USD0.92 New York Future. Of course, the physical cotton is still relatively expensive compared to this, because the bases have increased in this period.

So that was one where the product prices started coming down, everyone started looking at…all brands, all customers started looking at the price of cotton, cotton yarn and all the products go down. And then they came to the wait and watch policy rather than placing the orders because the concern was, by the time the product reaches them, there would be a huge loss in the overall inventory and the system. So that's how basically we look at this time.
Specifically, to the Indian situation, the prices came down in India also. We saw a high of almost INR105,000, INR106,000 a candy, and from there we came down to as on today almost INR80,000 to INR83,000 a candy. So, the drop of almost 25%, 30%, whereas, the drop internationally is higher. So, over there we saw from USD1.55 going down to about USD0.90.

The Indian cotton with INR82,000, INR83,000 today is one of the costliest in the entire world. And in terms of US cents, coming close to about USD1.37, USD1.38, whereas the international cotton available today, the cot loom or the cotton available internationally will be in the range of maybe about, maximum will be in the range of about USD1.20 or so. So, practically we are USD0.18 to USD0.20 higher than the international prices.

There are four countries which covers almost 70%, 80% of the spinning capacity of the world. India, Pakistan, China and Vietnam. Look at the prices in all these four countries, the prices of raw cotton in China will be close to about, is less than USD1, that is USD0.92 as of now. The Pakistani rupee is devalued, and the prices are also reasonable. And if you look at the US cents prices, in the range of about USD0.90, USD0.92 as of now. The Vietnam is the third biggest and the Australian cotton available to them today is a USD0.90, near future will be in range of about maybe USD1.18 to USD1.20. Whereas India, because of the shortage and import we can do in this period, we are still at about USD1.38, and these four countries cover practically at 75%, 80% of the spinning for the entire world.

So, as a result, India has a huge disadvantage which continues, carries on. So, we are not in a position to competitive on the export market. The Indian spinner also started looking at, rather whosoever has the cotton or whatever cotton is available, they were using that. And since our prices of raw materials were much higher, the mills took a strategy where they started looking at stopping the spindles rather than buying the cotton at these prices and then taking a hit. But as the international prices of cotton came down, the yarn price got readjusted very fast, based upon that, whereas, the Indian cost was higher. So, it was making more sense for the Indian spinners to stop the spindles, to use the capacity rather than buying cotton at these prices.

As a result of that, though, the theoretical prices are almost INR80,000, INR82,000 as of now per candy in India, there's hardly any deal happening. There is neither a buyer, nor a seller at these prices and it's more of a theoretical price because of the shortage is not coming down. But I think eventually, there doesn't seem to be any major interest from the spinners to buy at these prices.

The second impact of this was also based upon the future prices of cotton in India. The October, not October, the November, December deliveries are available in India at a price of almost INR64,000, INR65,000 a candy, which is INR17,000, INR18,000 lower than today's price, which is one clear signal that the prices of cotton are likely to come down sharply in India. As the result of that the spinners interest was not to buy and also the end customer also started looking at, since the prices are coming down, so, why should I take any position today. So, everyone was just postponing the purchase.

The third factor was the inflation outside India, which was a big concern. Both, the prices of food grains, as well as gas, they increased in a big way. As a result of that, I think everyone was concerned about especially, the middle segment or the lower middle segment got concerned and they were trying to have their budget more for the food grains, as well as gas, rather than looking at the textile. So, the overall demand of textile also came down in a big way.

In this period, it is estimated that the Indian spinners, almost 30%, 35% spinning capacity stopped, and in spite of that, there is hardly any demand for the yarn or other products also. Home Textile continues to operate at about 50% capacity. Denim continues to operate at about 50% capacity. The only better segment as of now is a Woven Fabric compared to all these products. Of course, there is a hit there also, but Woven is still better, because as the people are coming out of their homes after the COVID and the travel started, things are becoming normal from the COVID perspective, there still seems to be some demand better than denim or better than on textiles as of now.

So, this is the overall situation as far as India is concerned. And though, as I mentioned the loss of capacity, which has already been stopped, as of now, for Vardhman, I think we have also stopped maybe about 7%, 8%, 10% of our spinning capacity for last couple of weeks, because we also thought it prudent to not to buy the cotton at these prices and start taking a big hit and it was making more sense to stop some capacity wherever we can, especially for the 100% cotton yarns, because neither there was demand, or the demand was there but at a price which is making more loss, compared to stopping the spindles. So, more of a commercial call which has been taken by most of the spinning mills in India. And I think this situation may continue for another one or two months depending upon how fast the prices of cotton comes down in India, and how fast we re-align to the international prices.

If you look at the November prices of INR64,000, which is close to about USD1.03, USD1.04 cents, which as on today may still be acceptable if you look at USD0.90, USD0.92 of New York future, that means it's a positive about USD0.10 to USD0.12. It's over USD0.10 to USD0.12 over the New York future. So, historically, gap is about USD0.05, USD0.06, but I think even USD0.10 to USD0.12 should be or could be acceptable as of now.

The overall export of yarn from India has come down in a big way. All products, I think there's a drop. Just to give a perspective, normally India used to export close to about 110 million kg per month of yarn export, which in last four months has been coming down. So, from under 110 million kg, we came down to 80 million kg, 70 million kg, 60 million kg, 50 million kg and so on. And the last month reported figures are in the range of 25 million kg to 30 million kg only, which means we have dropped our exports from country almost to the extent of 80% or so. So, which is clear signal that because of our in-competitiveness, we are not in a position to export the yarn, whereas the, for both the reasons, our cost factors and also the demand was less. But I think the…but at the same time, these are some of the challenges which we are finding or facing today.

The next season crop seems to be good till now. The rains are adequate in all the cotton areas and there's likely to be about 5% to 6% area growth this year for the sowing and since the rains are reasonably okay in most parts of the country, especially in the cotton growing areas, there would be a yield improvement also. And it may be expected that the crop can be in the range of about INR360 lakh or so. These are the early estimates by the industry. Of course, we have to wait and watch for the exact figures to come from various agencies. The last year, it looks like we are going to close down somewhere about INR290 lakh to INR295 lakh base, against our original estimate of INR340 lakh and later on, because of the crop shortage or the crop destroyment, I think the overall, both the quantity and the quality was very bad in last year, which is because of the quality or because of the higher wastages one has to take, the spinner was taking more loss compared to the other parts of the world.

So, on a silver lining, one, the next year crop seems to be good. Two, our prices are looking aligning to the international prices. Third, I think the other thing is that overall pipeline in the system is absolute and empty. And whenever or wherever the customer starts understanding or the bank starts looking at, that probably these are the lowest prices or these are the stable prices, the demand would start, mills will start coming up also soon.
The another factor, the positiveness for India, which started with the China Plus One factor, both, on account of Xinjiang and also, as a second source of supply. I think that factor continues to be good, and there doesn't seem to be any major deviation of brands from that. And I think once our costs are normal, I'm sure there could be or could be a possibility for India to regain their market share once again, because it's not that India has lost that share, I think the overall demand in the world has been much lower in this period.

So that's on the industry side, and specifically on Vardhman side, over and above the results and the situation which I have mentioned, I think this is a period where the industry is passing through a very difficult time. So, whatever expansion we announced, which are yet to be started, as of now we have put it on hold, both, on account of the situation of the industry and also, the overall cost of machineries are very high still because of the supply chain issues and the machineries are not available for next two, two and a half years. So, we want to wait for maybe a couple of months. Once the situation becomes normal, both, in terms of the business and also in terms of the availability of machinery and the cost of machinery, because once the prices of all commodities have started coming down, we are sure the prices of machinery and the availability will also start improving. So, temporarily we have put it on hold as of now and I think we'll take that view soon once the normalization happens.

So, this is on the yarn side. Mukesh, can you share some of the thoughts on the Woven Fabric, and then we can take the Q&A.

Mukesh Bansal: Yes. Thank you, Neerajji. Good evening, everyone. On the fabric side, if you look at, the Q1 was sequentially little slower as compared to Q4 last year. Primarily, the reason being, there was inventory correction happening in the western world, primarily in the U.S., wherein we saw a lot of pent-up demand after the lockdown opened during the Q3 and Q4 last year. There were two factors to it. One was that the offices started opening. So, people who were working from home, they had to go to the offices. So, they need newer clothing for the office wear. Whereas in the previous quarters, the demand was more for the clothing that was suitable for work-from-home. So, the brands had higher inventory of casual wear and possibly the lower inventory for more dresses or fabrics. So that was one reason where there was a demand and supply mismatch. The right kind of stuff was not available in the stores.

Second is that the logistics tightening that was there before, that started easing out for the goods which were stuck at the port. They started reaching the brands faster than they would have occurred before. So, all of a sudden, they had a lot of inventory. So, that demand correction happened during the Q1 of this year. Second, of course, as Neerajji mentioned, the commodity prices forced the customers not to buy as much as they were selling. So, which we expect now the pipeline, the pipeline is in limited therefore. So, maybe the demand will pick up as soon as the…some correction in the demand and some correction in the prices happen.

That's it for my side, sir.

Neeraj Jain: Alright. We can start with the Q&A now. I think the remaining queries we can clarify as the question comes in.

Moderator: Thank you very much. We will now begin with a question-and-answer session. We take the first question from the line of Mr. Sahil Kumar Sharma. Please go ahead, sir.

Anil Kumar Sharma: I am Anil Kumar Sharma, madam. Good afternoon, sir. My question is on forward contract booking. We have booked in U.S. and last quarter we have provided for INR61 crore. This quarter also be provided for INR41 crore I think. And rather we will require to provide for next quarter also or that can be reversed also?

Neeraj Jain: No. So, we have already…we have cleared all the contracts. So, the next quarter there is not likely to be any negative loss to that extent or maybe today we have still some puts available to us. I'm not very sure whether they'll become the positive or the negative. But the as far as the negativity is concerned, as of now, I don't think there's any likely to be any negative in the next quarter, if the cotton goes down or those ports become in money, that could be a positive news.

Anil Kumar Sharma: It can be positive, I think, the prices are going down.

Neeraj Jain: Yes. So, let's see how it goes.

Anil Kumar Sharma: Right. And my second question is at what capacity we are running presently sir in the yarn and fabric?

Neeraj Jain: So, on the spinning side, as I mentioned, we have stocked about 8%, 9% of our capacity, whereas on the fabric side, we are running more than about 80% of our capacity as of now. So, 80%, 85% of capacity is still under existing. So overall capacity utilization is not that bad for us.

Moderator: The next question is from the Umesh Jain from Kotak Life. Please go ahead, sir.

Umesh Jain: So, I have two questions. One from an industry perspective, post the ban of Xinjiang cotton, I think that has also become an act from this month itself. From last month and a half year, since the ban is effective, are we seeing some sort of more demand from countries like Bangladesh who are procuring yarn from China?

Neeraj Jain: Definitely the demand from China…from Bangladesh has been good in the previous quarters. But yes, as on today, I think all parts of the world, everyone is in a wait and watch situation and using their own inventories. So, the overall demand is less even from Bangladesh also, for the last almost, one and a half, two months. That is aligned with the world markets.

Umesh Jain: Sure. So, from a structural perspective, do you think this Xinjiang ban could actually shift the Bangladeshi garment manufacturer to start procuring yarn from India also? I know, I understand Bangladesh is one of the major export partners for Indian yarn manufacturing companies. But that can accelerate from here on?

Neeraj Jain: If you look at last two years, the demand from Bangladesh has been quite good. They are expanding in a big way on the garmenting side. At the same time, they are not expanding that big on the spinning side. So, if they continue to do well, by taking a share from China, I'm sure the overall demand for yarn from Bangladesh or Indian yarn will also be good.

Umesh Jain: Sure. Right. And sir, one follow-up question on this. Is there a possibility that rather than these garment manufacturer players started to buying yarn from India, there could be a possibility that Indian cotton players can start exporting raw cotton to China and then Chinese player can start converting cotton to yarn and then supplying it to Bangladesh? Does that commercially make viable?

Neeraj Jain: Not really because of two factors. One, the China has the import policy where it could be imported only through the quota available to them. And they…normally government allows the quota from time to time and that's the maximum cotton they can buy, and this has been their policy for last almost 10 years to 15 years. Two, the overall cost of manufacturing is increasing in China also. So, they're trying to look at more concentrating on the value-added side, valuation addition side, which is the garmenting or maybe the fabric. So, on the spinning side, they are losing the interest for last 10 years. Just to give you a perspective, the China's peak capacity, about 10 years back was 112 million spindles, which as of now it's come down to 94 million spindles. So, I think the overall cost structure also is not allowing them or they are not interested to look at the low margin industry. So that's why there it looks like they may not be really very, very interested for this spinning business as such.

Umesh Jain: Sir, that's helpful. Second question was more of a follow up from the previous questionnaire. So, can you explain me the vision of the hedging losses that we are reporting? What is the exact nature of this transaction?

Neeraj Jain: So, when we were buying cotton, Indian cotton, there was no way we could hold it, because our thought process was the cotton is at a very high price. Though of course, the price kept on increasing which was not envisaged at that stage. So, when the season started or the prices were going up, we had no choice than to buy Indian cotton, because of our consumptions, but the MCX or there is no mechanism by which you can hedge the Indian cotton in India. The only possibility is that you can hedge it on New York Futures.

So, what we were doing, we were buying physical cotton and we started selling on the New York future to hedge it, so that if the prices go down, at least to that extent, we'll have a loss on the physical cotton and we'll have a gain on the New York Future. At the same time, if the price goes up, then we will have a loss on the New York Future, but at the same time, we'll have a gain on the physical cotton we had. And the same thing has happened. So, on one hand, we had a loss on New York future hedges, but at the same time to that extent, we have a gain on the physical side also, which the physical side gain will come under the operation or the raw material cost only. So that's how this hedging loss is being seen separately.

Umesh Jain: Sure. So, how much of our inventory is generally we hedge on a percentage basis? How much of inventory would be hedged as of now?

Neeraj Jain: No, as of now, we have not hedged anything.

Umesh Jain: So, all the hedge contracts are closed now?

Neeraj Jain: Yes, because as we consumed the cotton, we were canceling the forward contracts also. So, we have some small puts here and there, which is there, which could be only positive now. There cannot be any loss. So, if the cotton goes down, there could be some advantage which could come to us. Otherwise, the loss chances are not there as of now, because we don't have any forward contracts in.

Moderator: We'll take the next question from the line of Riya from Aequitas Investments. Please go ahead, madam.

Riya Mehta: Yes. Actually, I would like to start with the fact that since the entire industry is facing headwinds right now, I would want to start with, what was the CapEx plan for last year and how has this entire industry phenomena affected it?

Neeraj Jain: So, as I understand, the previous CapEx, which is, that the projects had already started. They are continuing, but the new projects, as of now for next couple of months we have put on hold. And once our cotton price in India comes down as per the international, then only may proceed.

Whatever expansion plans which were going on, that's getting completed on time. And whatever we have planned, which we were to start, we're putting on hold for a couple of months. Once the raw material prices is in line with international prices, then only we will take a expansion.

Riya Mehta: And going forward currently in the month of July, do you think, with the prices coming down to INR82,000 to INR83,000, any further increment demand from the export side or not much like?

Neeraj Jain: No, not much because INR82,000 to INR83,000 is almost USD1.37 to USD1.38 cents. So, at this we are not competitive. So, the overall demand, we are not in a position to take those contracts because our cotton is on a higher price. So, I think it's only it looks like maybe only October or November onwards, when the new arrival comes in and physically cotton is available, then only the prices will be aligned to the, aligning more to the overall market.

Riya Mehta: Okay. And also, the export market, how because of the exchange listings we had because of dollar terms invoicing? Like would we be getting any incremental money sum of money because of that?

Neeraj Jain: No. That of course. I mean, whenever there is a devaluation happens that's to the extent of export realization, there'll be some advantage, but I think again, the prices will keep on getting readjusted because if we look at the Chinese currency that is devaluating in this period. Look at Pakistan, it has gone from PKR200 to a U.S. dollar they've gone to PKR225 or so. So, I think all currencies are devaluing as of now. So, wherever you find a competition later on and as everyone is devaluating, probably that'll get readjusted somewhere for the prices.

Riya Mehta: Okay. So, are we seeing, do we have any long-term agreements for exports or piece-by-piece?

Neeraj Jain: No, it is all piece-by-piece. So, the maximum contracts any customer does it to date for is only for a month or two. So, there is no long-term contracts in the spinning side as of now. Right.

Moderator: Thank you. We have the next question from the line of Apurva Sharma from PGIM India. Please go ahead.

Apurva Sharma: So just wanted to understand, currently, what inventory of cotton are we carrying and around what pricing would that be?

Neeraj Jain: Sorry. That information we don't share with the investors.

Apurva Sharma: Okay. Any…so is it yours? If you can give it, you know, not the exact pricing or a range, but is it lower than the current cotton price or higher, so that we get a sense?

Neeraj Jain: It's almost comparable.

Apurva Sharma: Sorry? Prices are almost comparable at the current price. Okay. And sir, CapEx also, as you mentioned and explained earlier, in the opening remarks, you have deferred the CapEx and we'll take a call in around two months. So sir, I mean, what is the level of, I mean, what is the benchmark that we are looking at in terms of, say, cost per spindle or anything else in terms of demand or supply scenario that I think what would tempt us to…what is…?

Neeraj Jain: It is nothing to do with that the CapEx. Prices will come down. Only to three months, I'm looking at if our raw material prices are aligned to the international prices, which means India will also be competitive once again. So that's where we want to look at. It's not that the prices of machine will come down, that's why we are delaying it. No, it's not like that. It's the basic profitability should be restored, or the margin should be normalized, then only we will take up these projects.

Apurva Sharma: Okay. Why I was asking is, since once we ordered the machinery, it takes… there is a lot of lead time, right. So, I'm assuming obviously, things will normalize in the next quarter or two. So, what stops us from at least maybe ordering and all? Obviously, the current prices, you said are high. So that was my…how I was looking at it.

Neeraj Jain: That’s true. So, maybe your point is valid that once the project are going to be commissioned only two years down the line, but still, in the ongoing to situation, we thought it to be prudent, because in any case, 100,000 spindles will be implemented in next two to three months, which should be sufficient for us to take care of additional demand for next couple of months. So, it's only two, three months, once the overall mood of the industry becomes better, we will start looking at it. So, it's not that there are any permanent changes there in our thought process, I think we still can go on the overall expansion plans we have. So, it's a matter of once we can see normalization happens, because it's a very challenging time. And we're also looking at how to pass through this time by making all the alternate product changes. So, it is more of a sentimental as of now rather than any major issue or a concern.

Apurva Sharma: Sure. So. one last question. So once, as you said, right, we have also shut down some spinning capacity because there is no bright note in terms of demand. Everyone's in wait and watch more. So, once the new cotton comes in, and things align with international prices, and so, can there be a scenario in two, three, wherein everyone just starts the order or everything starts and there can be a huge crush on orders in terms of backlogs because a lot of the capacity is down already as you mentioned, around 30%, 35%.

Neeraj Jain: There is all likelihood of this scenario which you are mentioning, that since the overall capacity is down, the pipelines are empty, suddenly once the demand comes in, there could be a possibility because of pipeline the certain demand can again give a big push to the overall system. But I think we have to wait and watch because the overall capacity is down. India 30%, 35% is the overall spinning down and maybe another 8% to 10% people would have converted on the alternate products like 100% polyester, 100% clothes, etc.

So, both the scenario you are mentioning, I will not be saying that it is impossible, there could be a possibility once the customer or the brand starts coming in. The prices are normal or they're more comfortable on the raw material prices for a medium term, there could be this possibility that suddenly we might find a huge demand coming in.

Apurva Sharma: Sorry, I said last question, just one co-related to this. As you said, 35% production is down. And isn't that the case, if for say a quarter, three, four months, we are not able to supply to our key customers, that demand goes away and shifts to, at least some of it shifts to some other sources or suppliers.

Neeraj Jain: No, no.

Apurva Sharma: If you can help me explain the dynamic, please.

Neeraj Jain: Yes. So, it's not that it is gone to some other countries. Other countries are still not losing or making some money, but the overall demand still is low, because the brands are all looking at the prices to be dropped. So, it's not that they're buying more from XY or Z company. They have been buying less only. And in any case, India controls almost 25% to 30% of the world's exports market of yarn. It is not possible for any other country to immediately capture that demand.

Apurva Sharma: Okay. So, this is basically, if I understand it is because the commodity now is all cooling off. So, everyone is in a wait and watch mode. That's why we are seeing what we are seeing.

Neeraj Jain: Yes, that's one. That's one. India, specifically, the cotton, specifically, the Indian market is more bad, because our prices are much higher than the international prices.

Apurva Sharma: Right. Like, yes, so yes, indirectly the commodity plays the role.

Neeraj Jain: Yes. Right.

Apurva Sharma: So, our customers are right now secure that way, because if we have shut down some capacity, that should not be a problem. At least the customers or say, the demand is okay, that can come back, but customers are intact right now. Right?

Neeraj Jain: Yes. Yes. Just to give you one another point, though I mentioned that I've stopped 8%,10% capacity, but just to look at that financial loss should not be there, because we buy cotton at a price and we sell at a current national price of cotton. But at the same time, whosoever is my regular customer, or is depending upon me, we are ready to take that hit. And to that extent, we are ready to buy cotton also at these prices, so that the customer should not get suffered, because that's a long-term bet we have taken. So, it's only if you don't have customer or you don't have regular customers or you don't have…there are some floating customers which are not coming to you, so to that extent, I'm willing to stop the production. But when it comes to my regular customers, I don't think there is one iota of issue or thoughts that we don't want to supply to them. Then either is done.

Apurva Shaq So, that was my point. Maybe what my point was, if the customers are demanding and still we are not supplying then that can be an issue but as you mentioned, that is not an issue. We can take the hit.

Neeraj Jain: Yes. We are very clear for the customer. There's no second thought even I mean, there's not, we were very clear that customer wants something, irrespective of the cost or price, we will not leave them.

Moderator: We'll take the next question from the line of Prerna Jhunjhunwala from Elara Capital. Please go ahead.

Prerna Jhunjhunwala: Sir, wanted to understand what is the current yarn price in the international market?

Neeraj Jain: In the range of about USD4.10 to USD4.30, anyone's guess.

Prerna Jhunjhunwala: And this thread would be around…

Neeraj Jain: Thread for India will be negative.

Prerna Jhunjhunwala: Okay.

Neeraj Jain: Thread for Pakistan, Vietnam, China would be in the range of about USD0.90 or so.

Prerna Jhunjhunwala: Sir, though, you China Plus One is a very attractive opportunity for India. Can you see….

Neeraj Jain: Sorry, Prerna. When I said the negative means, the margin would be negative, not the thread would be negative.

Prerna Jhunjhunwala: Okay. Understood sir. I got the point. Sir, just wanted to understand, that because of Xinjiang cotton ban, the demand for that cotton has reduced considerably. Do you think that China will become a cheaper source of cotton for a longer period of time going forward? Any thoughts on that?

Neeraj Jain: Let’s look at the total Chinese balance sheet of cotton. They consume close to about 8 million tons. And out of that, they bought almost 1.5 million tons, 2 million tons. 6 million tons is there, or 5.5 million tons is their domestic production. Out of that, 80% comes from Xinjiang. So, I think the likely scenario going forward would be that whosoever or wherever they're exporting the products, they will have to import cotton or import yarn or use the non-Xinjiang cotton which is available within China. The Xinjiang cotton will be available or will be used either for the Chinese local demand or for the other countries like Asia, Middle East, where they don't have these kinds of restrictions. So, they'll have to readjust, but in any case, they will be net-net short on the cotton or cotton yarn, if they take aside this Indian cotton for their exports only.

Prerna Jhunjhunwala: Okay. Because global consumption pattern, 35% is U.S., maybe 30%, 35% will be Europe, half of it which comply with XinJiang, half of which may not. So, practically 50% plus consumption area for China is available for Xinjiang cotton which, where we will be competing with them. So, that was a one thought, that apart from U.S., could there be a situation where China becomes cheaper than Indian spinners?

Neeraj Jain: Not really, if our cotton, because today also, I mean, if their cotton is at about USD0.95, USD0.96, USD0.97, if our cotton comes down to USD1.03, USD1.04, I don't think really there's a big issue for that.

Prerna Jhunjhunwala: Okay. That is quite comforting, sir. Yes. So, next question is on the fabric side. You have put aside the capex of yarn for some time. Can there be a possibility of fabric CapEx announcement? Or is it under consideration going forward largely because we are nearing full capacity utilization? We are near full capacity utilization in fourth quarter and eventually with improved demand that you are expecting from Q3 or Q4, due to supply chain being empty, the demand for fabric will also be higher. So, in such scenarios, do you think that fabric capacity expansion which takes approximately more than a year to set up could be announced in near-term?

Neeraj Jain: Yes. Yes. So, what our thought process on that is, we already have a surplus fabric capacity as far as the gray fabric is concerned. So, we are trying create more of a balancing equipment where this 140 million, this 140 lakh meters per month can go to about 160 lakh meters or so. So, I think more of work will happen on the balancing or wherever the bottlenecking could be done, rather than adding any new line as of now. There's lots of ideas which are already under consideration and I'm sure one by one that can be implemented relatively faster.

Prerna Jhunjhunwala: Okay. Okay. So, sir, how should we look at growth on volume term over the next two, three years?

Neeraj Jain: So, we are simply talking to all the investors that, please don't look at the peak utilization. Our average utilization has been in the range of about 100 lakh meters, 105 lakh meters last couple of quarters. So, once we are consistently using at about 140 lakh meters. I think only if we are reaching to that level for a couple of months then only the intent to look at the further expansions. Though, your point is valid. It will take one year but I think that's what we feel that there should be a positive pressure on the team to utilize it fully and then only to take up the next project.

Prerna Jhunjhunwala: Understood, sir. So, that means we will be almost less than 5% volume growth CAGR for the next one two years between there is no major capacity coming up?

Neeraj Jain: 5%, that is true, but at the same time since our average capacity utilization has been much lesser. So, to that extent that 20% would be available on a year-on-year basis on a full year average. We are in a position to utilize it fully.

Moderator: We will take the next question from the line of Mr. Sandeep Baid. Plesae go ahead, sir.

Sandeep Baid: Sir, my first question is what is our inventory as of June 30th? How many months inventory of cotton are we holding as of June 30th?

Neeraj Jain: I've already requested we don't share that information. So, my request is, I am not in a position to share that.

Sandeep Baid: Sir, maybe the price. I'm not asking for the price, only the amount of quantity.

Neeraj Jain: Price idea indication I've already given, that we are…it's almost aligned to the market prices as of now.

Sandeep Baid: Okay. And have imported cotton from overseas?

Neeraj Jain: Yes, we have.

Sandeep Baid: And are we looking at importing more going forward?

Neeraj Jain: No. Import will always have a 11% duty. So, it will never make sense unless earlier we were importing only for a specific use, which is where the customer wants the product from those cottons. But in between, since the Indian cotton was not available, we have imported some cotton from U.S. or other countries as a replacement to the Indian cotton. But that's what seems to be a one kind of phenomena as of now and we'll keep importing specific cottons where the customer wants to source those products.

Sandeep Baid: Okay, but we have not…so you're saying you're not imported any significant quantity in the last few months.

Neeraj Jain: Boss, I didn't say that. I said that Indian cotton was not available and hence, in replacement we have imported that. We will be importing only against specific need of yarn, where the customer wants it from a specific cotton.

Sandeep Baid: Understood, sir. Sir, secondly, on this hedging loss, what I'm not able to understand is that as the New York prices as of June 30th were lower than what they were on March 31st. So why would be…and you would have marked your hedging bets as of March 31st prices, when you declared the March 31st results? So why would you have a loss in the June quarter when the New York prices were lower?

Neeraj Jain: New York prices are lower than?

Sandeep Baid: The June 30th prices were lower than the March 31st prices.

Neeraj Jain: No, it's not that. Yes, the March, when we had taken it, we rolled over those contracts to June.

Sandeep Baid: So, if there are significant premium that you have to pay for it?

Neeraj Jain: Sir, the 30th June contracts will get over almost near to 22nd May, 23rd of May. Those are last days where you have to come out of the auction. So, if you want to compare these prices, you'll have to look at the prices which were prevailing practically up to about 22nd May, 23rd of May.

Sandeep Baid: Okay. Understood. And lastly, how are the fabric prices behaving? Have you seen significant reduction in fabric prices also post the reduction in yarn prices or fabric prices are more or less the same?

Neeraj Jain: Not nearly. Not really. So, it is always a lag. Whenever the yarn prices are increasing, the fabric will take time to increase the prices and vice versa. So, as of now, as far as fabric is concerned, though there is some drop, it's not as sharp as the yarn drops has happened. So, generally the yarn prices will fall in line very closely to the cotton prices, where the fabric there will always be some time lag.

Sandeep Baid: So sir, just looking at this FY'23, I guess the quarter one was reasonably good. Quite good I would say if we exclude the hedging losses. Q2 seems to be a bit uncertain. And then I guess Q3and Q4 will be a function of how the crop is and how the demand comes back? Is my reading correct?

Neeraj Jain: Due to…I will agree with you. Q3, also, there's one issue which is likely to happen for every spinning mill, that whatever inventories we have, finished goods, WIP, they'll get revalued based upon the new cotton prices. So, whenever new cotton prices come in, so there are two kinds of valuation which can be a concern. One is, I am already holding to the cotton, if that's expensive, and the new cotton comes at a cheaper price, so that's one loss which is likely to happen. Two, whatever finished goods are there, because the inventory is valued at current cost of cotton plus the conversion cost. So, today suppose theoretically for any mill, if the cotton price is at INR82,000, which is the current price, and tomorrow, whenever September, October, depending when we start buying the new cotton at a lower prices, so whatever inventories you have, normal inventories in the system, finished goods I'm talking, they'll also get re adjusted based upon the new cotton prices, as well as the conversion costs.

So, there's some mark to market, some revaluation hit which has to happen by the time we go into the era of lower cotton prices. Whether that happens in September or October, I'm not sure. That's also likely to happen across chain for everyone. But yes, quarter four onwards, so quarter three onwards, on the margin side, we may be normalized. But depending upon when do we start buying, any textile mill, there will be some evaluation hit. Quarter four should be absolute normal, going back to the acceleration. I hope I could explain the issue.

Sandeep Baid: Currently in the last call, you had mentioned that this year you're holding less cotton than usual, and so I think the stress is that even though the cotton may not be there, but on the finished good, you still may have to take the inventory hit, if the prices are lower.

Neeraj Jain: Correct.

Sandeep Baid: Sir, lastly, from a longer-term perspective India is already signed the agreement with Australia and UAE and now we're looking at signing with UK, hopefully by Diwali. And then the one with the EU is also underway. So, from a two, three years perspective, what kind of growth are you looking at both on the yarn and the fabric side?

Neeraj Jain: There are three factors where, which are…four factors which are quite positive for the industry. One is, we have already mentioned the China Plus factor, which includes both the customers' concerns about the Xinjiang, as well as their concerns about having the second source of supply. That's for sure is on track and looks good. The second factor, all these FTAs which are being signed, the country will get, India will get some advantage compared to the others by way of duty-free export assessable to us, for those countries, which will also increase our share and to that extent, it will be positive for the industry.

Third, the government is working big way on the integrated textile parks for the garmenting. If we can make this as a success of the country, because it's not only the spinning, which can be or the yard which can be exported, but these countries especially the Australia, UAE, they do not look at the yarn imports, they look at the final product, final consumer product imports. So, if we can create those capacities successfully, and to that extent, I think the advantage will be much bigger, because then to that extent, the demand will be higher in India, and we will be in a position to take market share. These are all very high-cost countries and they will not be importing yarn for sure. So, they will be importing the final products, and we have to have those capacities available to us. So, the government is working on that idea of creating all these mega paths where we are in a position to make it a success. I am sure it's a quite big positive.

Four is, as you know, all of us are aware that our fiber composition is just reverse of what the world markets are. So, the entire world market is 70% synthetic and 30% cotton and we are 30% synthetic, 70% cotton. So, the PLI scheme, it looks like this lots of interest shown by the various companies. And if we are in a position to make it successful, and our consumptions in terms of the synthetic fiber keeps improving, I am sure, we will become slowly more competitive on the synthetic exports also, whether it's yarn or it's the further products. That's another positive where the government is given a big push. Now up to the companies, wherever or whosoever wants to take advantage of that. And these are couple of good factors also where the opportunity seems to be quite good for Indian textile industry.

Moderator: We take the next question from the line of Mr. Abhineet Anand from Emkay Global. Please go ahead, sir.

Abhineet Anand: From exports perspective, can you detail region wise where do we export in terms of the importance?

Neeraj Jain: We export the practically to the entire world. So, Bangladesh, China, Vietnam, practically these are the countries where lots of export of yarn happens from India. But I think wherever there is a garmenting happening, India is exporting practically to every country. Of course, Bangladesh has become the biggest.

Abhineet Anand: Okay. So, fair to assume that from our Vardhman per se, Bangladesh could be a double-digit number?

Neeraj Jain: Yes, yes, for sure.

Abhineet Anand: Okay. And followed by as you said, Vietnam and China, right?

Neeraj Jain: Correct.

Abhineet Anand: So, in terms of the spindle capacity, you highlighted, in terms of China from around 110 million in the last 10 years, we have come to 90 million, 95 million. So now India probably is at a pole position and in that term, right?

Neeraj Jain: Yes. So, Indian spinning spindle capacity today will be in the range of about 50 million. And if you look at the new supply in India, I think overall we will be adding close to about 2.5 million to 3 million spindle, 3 million spindles per year. Out of that, 0.5 million spindles could be for modernization and another about 2.5 million spindles for the expansion. So next three years, we could add close to about 6 million, 7 million capacity which would be new, and another about 1 million, 1.5 million for modernization, if things go well.

Abhineet Anand: Okay. Now I know that presently we are in more challenging times and this question might be…but if I have to look up from Vardhman's perspective, your capacity in terms of spindle, if you say three to five years perspective and everything normalizes by 4Q you of this year, where do you see that? I'm assuming that demand is back and cotton is back to its normalized number?

Neeraj Jain: Yes. So, our announced numbers are already about 2.5 lakh spindles, we have announced over and above these 100,000 spindles which are under implementation. So that's a part of our announced policy, which is declared. And I think to that extent, we'll be reaching close to about 1.5 million spindles in next three years, four years' time.

Abhineet Anand: Okay. And if I were to just add on this, what could we, for a spinner like us along with some fabric that we may, what could be a long-term margin, you know, assuming a normalized scenario?

Neeraj Jain: So, we have always taken this, knew that the margins for the company would be in the range of about 18% to 22%. The good year could be 22%, or towards the higher band and the bad year could be towards the lower band. Of course, last year was an exception towards the positiveness. This year could be an exception towards the negative side.

Abhineet Anand: Okay. And lastly from me sir, you saw that on 3Q there will be a revaluation, right, because of whatever, whether you have cotton or the finished goods.

Neeraj Jain: I don't know quarter two or quarter three, depending upon when we start buying the new cotton.

Abhineet Anand: Yes, so that, where does it in terms of accounting that comes under our Rm, right?

Neeraj Jain: R?

Abhineet Anand: Revaluation hit or you say it's not, there's no revaluation hit, then it directly comes under…

Neeraj Jain: No, no. There is no revaluation kind of item. It is only whatever is the valuation of clothing stocks or the finished goods, that gets reduced.

Abhineet Anand: So does it flow through our that current quarter's numbers in terms of P&L?

Neeraj Jain: No, it will go through the P&L only, but it will be indirectly linked to the cost of raw materials.

Abhineet Jain: Okay, in the cost.

Moderator: We are taking the next question from the line of Monish Ghodke from HDFC Mutual Funds. Please go ahead.

Monish Ghodke: Sir, you said that at current specs, the margins will be negative, right?

Neeraj Jain: Correct.

Monish Ghodke: And you also said that current average inventory procurement price is closer to the current market price. So, can I say at current levels our margins would be negative then?

Neeraj Jain: Yes.

Monish Ghodke: Okay.

Neeraj Jain: Negative or miniscule and almost negative or miniscule.

Monish Ghodke: So, what would be the Q2 margins? Would it be like in the lower single digit or how much it would be?

Neeraj Jain: I can't really give you an indication of that. Since starting the quarter, the things are changing very fast and it will not be prudent for me to give you any idea on what's going to happen, because I'm still not sure. Today the cotton is at INR80,00, one month back it was under INR100,000. I don't know what will it be next 20 days.

Monish Ghodke: But it will be considerably lower than quarter one, right?

Neeraj Jain: It could be. Yes.

Monish Ghodke: Okay. And sir, one more thing this You said that there will be a revaluation in Q3, but your inventory turnover ratio, which will disclose in the financial year is, its financial statement is 84 days. So that like, if I assume broadly, it's a three-month inventory, like raw materials or finished goods, so it should finish by October, right?

Neeraj Jain: No, no. The finished goods will never be finished. We will be producing and will keep on supplying. So, there will be a minimum inventory. Normally our inventory of finished goods is about 20 days, 25 days at any stage. They'll always be a part of system, my dear.

Monish Ghodke: Okay. Okay. And sir, the top line, does it include duty drawback benefits, this INR2,800 crore.

Neeraj Jain: Yes.

Monish Ghodke: What would be the quantum of that?

Neeraj Jain: The duty drawback is about 1.9% on the sale price, and in addition to that, there's a RODP because close to about 3.4%. But there's a cap of about INR10, INR10.5 a kg on 100% cotton yarns. But that's only for the exports and they remain…domestic you don't get that.

Monish Ghodke: Okay. And sir, in terms of like for yarn and fabric, what would be the share of our top five customers?

Neeraj Jain: So, we're pretty well organized to that extent. So, I think the top five won't be more than, as far as spinning is concerned, that won't be more than 18% to 20% of our overall volume, maybe less than that. Mukesh, what will be top five customers in terms of the fabric constancy?

Mukesh Bansal: Yes sir. Top five customers in terms of brands, our customers are GAP, Tarzan.

Neeraj Jain: No, no. What will be your percentage of the total fabric capacity?

Mukesh Bansal: Of top five customers, sir?

Neeraj Jain: Yes. I think maybe 10% to 15% only.

Monish Ghodke: Okay. And sir, like maybe at broader level like when I'm selling a yarn, let's say at INR100 and if I'm converting that into gray fabric and processed fabric, how much additional realization am I getting, like to an index of 100?

Mukesh Bansal: Actually, on the gray fabric in any case, we are not that big into the market. On printed finished fabric, on an index of 100, it is closely a little more than two times.

Monish Ghodke: More than two times So, like it will be 100% more you are saying?

Neeraj Jain: So, if yarn is sold for INR100, the gray fabric, there will be a further value addition of let's say about 50 rupees, which become INR150. For the processed, it will be another 50, which becomes INR200. So, the total value addition will be almost double.

Monish Ghodke: Okay. And sir, one last question. For one meter fabric, how much yarn will be used in kg terms?

Neeraj Jain: It is approximately three meter per kg of fabric, three meter per kg of yarn.

Monish Ghodke: Three-meter fabric for one kg. Okay. Okay. Thank you.

Moderator: We take the next question from the line of Anand Shah from ICICI Prudential Asset Management. Please go ahead, sir.

Anand Shah: Hi. Neerajji, this cotton situation this is maybe the first time that Indian cotton is more expensive than the international cotton. Just wanted to get some sense of what was so exceptionally this year and whether this can repeat?

Neeraj Jain: So, there are two exceptions happened in this year. One our crop was --- the crop got damaged. So, the overall cost was less in India. It happened earlier also because it is a natural product. Sometimes, the rains are not there or there's some kind of diseases comes to the crop. I think those things have happened earlier also. The exception this year was, that there was an import duty which was put in by the government in the budget of 2021. So, industry came to know in between that the crop is short, but at the same time, because of import duty, it couldn't be imported. Two, the international prices were also increasing in the same way. So, there was a concern that you buy cotton today, by the time that is imported into India, because the shipment was taking lots of time, so, four months down the line it should get in India and by the time the prices comes down, where are you going to make a use of this.

So, these are the three factors one, the crop got damaged. Two, import duty restriction. Three, the long period per shipment from outside and very high freight, which was not allowing the normal transits to happen in this period. All three factors came together. So, this is a big chaos because of that also.

Anand Shah: So, are you saying that last time around, if such crop damage would have happened we would have imported cotton and cotton is generally available?

Neeraj Jain: Correct. Correct. Because by the time the government approved the duty free in both in India, it was in the month of April and May, but that time the crop was finished outside because the U.S. crop cycle is same, what we have in India. So, it starts somewhere in October, finishes in March. The government allowed the duty-free import till 30th September in the month of May, but that time there was no crop available outside. So, we couldn't import anything. Then they extended till October. Till October also there is no crop other than the Australian available and Australian, the shipping was not available because of the COVID restrictions. So, the cotton could not be imported. One was the cost factor, the custom duty. Two, there was no shipment available in this period outside India.

Anand Shah: My last question was, there will always be inventory in the play, right. I mean last time also you would have inventory with CCI and all that. Was that also a factor which was not present this time around?

Neeraj Jain: This time, there is no inventory available because in the initial period we exported lots of cotton, when our Indian cotton prices got less. And there is hardly any quantum available with the spinners, with the traders or even with the CCI. So, as I mentioned, since the overall crop is only about 295 lakh bales or so in India, there's a huge shortage which got created in this period.

Anand Shah: Sir, my last question. Is their expectation in terms of what is the acreage and do we have some data, what sort of crop can we see this time?

Neeraj Jain: Yes. As compared to earlier season, so there is a 6% increase in the area, which is already reported as of now. The overall rains are very good in all the cotton areas, and it looks like the early estimate of industry is, it could go to about 36 million bales or so in this year.

Moderator: We take the next question from the line of Mr. Aman from a Augmenta Research Private Limited. Please go ahead, sir.

Aman Madrecha: Hi, sir. Thanks for the opportunity. Actually, I just wanted to assess the situation as in, like for example, during the same time last period, how was the…can you give some sense of the orderbook? Like how much the orderbook have been reviewed or how has the been the inquiries, YoY, because as you said, that, currently the Indian prices are high, because of that the Indian spinners are at a disadvantage that is in the --? So, some sense in the YoY comparison?

Neeraj Jain: No, no, no. I think, please try to understand, I think this is wrong. What we are stating, since the prices of cotton were coming down or pricmes for commodities were coming down, everyone stopped buying. All brands stopped buying. So, it's not only cost factor, it is the second factor. So, one is, the overall brand consumption or branr to the overall demand was also less because people outside were looking at. So the overall demand outside was because people were getting concerned on the inflation and on the cash side.

India is a third factor where we were losing because our cotton, not that we don't have the order. Nobody in this system has gotten any order, whether it is Vietnam or China. The only thing is whatever they selling, they are not taking a lot. And if we are selling, we are taking a lot. Otherwise, overall demand entire world.

So, the other factor was last year there was a big supply chain issue for the all the products. Brands were ordering much higher than what they needed, because the demand overall was good, and they were looking at the shipping not reaching on time. So, they were extra booking the all the products, including the textile. As the situation of shipping, supply chain started improving, whatever excess inventories brands had bought, they wanted to readjust also in this period. So, let's say someone bought a one-month extra inventory in 2021, which has to be readjusted in this year. So as the supply chain was improving, prices were coming down. So, the brands started readjusting to their order position also, which is also one of the reason why the overall demand is subdued or less in this period.

Aman Madrecha: Okay, sir. And sir, this, can you can you just again, like sorry for, can you just again highlight the difference between the U.S. cotton price and Indian price, what was this? What is this currently and what was the general average? What is the general difference?

Neeraj Jain: Normally, normally, the Indian prices will be about USD0.05 to USD0.07 cents higher than the New York future prices. So, if let's say the New York future prices are at USD0.80, Indian cotton will be in the range of about USD0.85, maximum USD0.90. In this period, as on today, the New York future is at USD0.90 and our cotton is at USD1.37. USD1.38. So instead, of USD0.08 markup, we are higher by about USD0.45 as of now.

Moderator: We'll take the next question from the line of Pulkit Singhal from Dalmus Capital Management. Please go ahead, sir.

Pulkit Singhal: So, the first question is, I am just comparing your commentary, what it was in the fourth quarter, fall. Would you say you're now more optimistic on the prospects versus what it was two, three months earlier, and see it more like a very short-term blip with recovery happening sooner?

Neeraj Jain: I was never very pessimistic on the long-term, neither on my fourth call, fourth quarter call or even before or even today also. My concern was only that the cotton is short in the country, and we will have to pay that cost till the time the new crops comes in. Same as the situation.

So, I don't think any fundamental changes happened in these three months. Yes, of course, the demand is less. But that's true for everyone. It's not only for Indian spinners. So, I think as our raw material price will get readjusted to the world markets, after that, I'm quite optimistic on the overall industry scenario.

Pulkit Singhal: So the biggest change is that the cotton prices are coming down? I mean, that has been a major inflationary trend when we spoke last time. So, I would have thought that now with the prices coming down, which was the entire essence of the commentary earlier, this thing should change more for the than my expectations.

Neeraj Jain: Yes, so the two factors in between on this, one, as the prices started coming down, so everyone is looking at what should be the lowest prices, where the normal buying should start happening. Since it's been coming down very fast, everyone is on a wait and watch situation. That's one. Number two, unfortunately, the Indian prices have not come down to the extent what the international prices have come down. So, in the month of May, or June, when we were doing the fourth quarter call, the prices were almost USD1.40, USD1.5, which has now come down to USD0.90. Whereas, the Indian cotton from INR105,000 is still INR80,000 to INR82,000. So, the prices, of course, has come down, but in India, the drop has not come in line with the international drops. So that's where my concern for the Indian spinner as of now. The overall, once our cotton is also comparable to the international markets, I don't think there's really any big challenge.

Pulkit Singhal: Understood. Last year, we also talk about these spreads being at USD0.90 at that point. Even now, the spreads are the same. I mean, there's no improvement at all from the USD0.90?

Neeraj Jain: So, the spreads as of now is for the Indian spinner is surely much less than USD0.90. It will be in the range of…so, we are talking the spread means declining cost of cotton versus the yarn prices won't be more than USD0.50, USD0.55 as of now. And whereas, when it comes to all three other countries, which are the biggest spinners, it will be in the range about USD0.90 or so.

Pulkit Singhal: Right. And also, if I ask from a slightly altered purposes, I mean, obviously, the new government is taking your initiatives, whether it be to realize integrated textile parks. They are trying to make some real effort on creating this as a major hub for manufacturing. And we are also on a of network with almost zero net-debt. So, can you rethink the purposes on trying to go for any of these teams or integrated excel path, kind of finding a balance sheet, which allows us to do inr3,000 crore to INR4,000 crore of CapEx? Any thoughts?

Neeraj Jain: I mean, we are yet to take a final view whether we really want to grow big on the garmenting side or not. But yes, once the news keeps coming in, we'll definitely evaluate that. The earlier PLI scheme was not making sense to us, because one, we are not, that's not our product line as of now. Two, the scheme also envisage that it has to be a separate company for a turnover of INR300 crore and we feel…I mean, our feeling for INR300 crore or some investment, creating those kinds of infrastructure and then separating a company, it's a much bigger issue for us. Anyone who's a smaller or who intends to put in a new capacity, it's a beautiful scheme, but any large player which is already on a company's almost INR9,000 crore, for a INR300 crore, INR400 crore company to create a separate company and then all the utilities and those kinds of things. So, for Vardhman it was not making sense at all to us, both in terms of this legal requirement and also that was not our product range at that stage. So, we have not shown any interest on the PLI scheme, but once Mitra comes in or those kinds of things come in, we will evaluate it for sure.

Pulkit Singhal: In the integrated textile party, it will give a lot more status, I mean thought process for application.

Neeraj Jain: Yes. Hopefully yes and --- but the challenge is now, we understand the government also wants to put into the areas where more unemployment is there. So, we'll have to understand and look at in terms of the overall ecosystem in those states, how does that work?

Pulkit Singhal: And then we'll get some clarity on your thought process here, like how far away is that? Lile less than six months, a year? How much time?

Neeraj Jain: Once they announce finally all their schemes and all the infrastructure will take, but as of now, for the next six months, nine months, I don't think there's going to be any major decision from our side in terms of investing into those schemes.

Moderator: We will take the last question from the line of Nikhil Agarwal from VT Capital. Please go ahead, sir.

Nikhil Agrawal: Sir like, could you give some any revenue guidance for FY'23, FY'24?

Neeraj Jain: Revenue?

Nikhil Agrawal: Guidance. Yes, sir.

Neeraj Jain: Well, I've already mentioned our capacity utilization is 8%, 10% lower in spinning and maybe about 10% to 15% in fabric. So, to that extent, it is easy for you to calculate that.

Nikhil Agrawal: Okay, sir. Just a clarification, like on those spindles, you had a capacity expansion of about one lakh spindle coming up in August. So is that also on hold or has…

Neeraj Jain: No, it is not on hold but unfortunately, because of the non-availability of chips, and all those spindles, there's lots of machinery which is still not available. So, one plant we have already started partially, and I hope that will get completed by 30th September rather than August. The other plant also we're trying to look at maybe September or October, they'll also get installed.

Nikhil Agrawal: Okay. So, the plant which will be starting, what is the capacity on that plant?

Neeraj Jain: So, I hope by October, November, the entire 100,000 spindles will be implemented.

Nikhil Agrawal: Okay. Great, sir. And sir, what is the capital consumption of the base fabric? Is it like completely you use it for manufacturing the process or do you sell? Are there any external sales as well?

Neeraj Jain: The gray fabric we sell…So normally, there is always be, you're required to have some extra capacity in gray to give a proper service to the customer. And we have about 20% 25% extra gray capacity to give the right service for the processed fabrics. So, but wherever, at the same time that capacity, we normally sell in the markets. So, whatever is the surplus capacity available. So, our average gray sales in the market will be in the range of about 25 lakh, 30 lakh meters a month.

Nikhil Agrawal: Okay, sir. And sir, what was your like, for FY'22, what was your realizations on the yarn and fabric side?

Neeraj Jain: Realization means?
Nikhil Agrawal: Like the total volume sold by the…the total sales from each segment divided by the total volume sold.

Neeraj Jain: That data I think you can refer with, it is already a part of disclosure to the stock exchange. For 31st March, I don't have the data handy. I don't actually have the data available with me. You could look at or you could speak to our team separately. They can provide you whatever it is.

Nikhil Agrawal: Okay. Okay. And sir, just one last question. So, on what spread…you said currently the spread in India are about USD0.50 to USD0.55. So, at what spread are you positive, margin positive?

Neeraj Jain: So, close to about USD0.80, I think we start becoming positive. USD0.70 to USD0.80, we start becoming positive.

Moderator: That was the last question for today. I now hand the conference over to the management for closing remarks. Thank you, and over to you, sir.

Neeraj Jain: Thank you. So, I think I've been explaining to all the investors and to quite an extent we are still consistent on the thought process. The medium term still looks very, very good. And we were cautious, we were looking at the Indian prices of raw materials much higher than international prices, which was giving us a concern when we did the fourth quarter call. And I think so it has been coming to an end this period, we have seen it, and another three to four months is going to be a more painful area, in my view. But at the same time, we are looking at, though, we have stopped 8% or 10% spindles in last one month or so, but we have also looked at wherever possible, how to shift capacity on the alternate products, which might not be giving us the margin, but at the same time, at least, we should be in a position to cover our fixed costs. So, we're actively working on those ideas.

I'm sure, as internally, we are very much concerned about the situation and we're looking at whatever best possible in this period to pass through this time, so that we can retain the customers, we can sustain them. We keep on working on the efficiencies, both on the yarn side, as well as fabric side. Our teams are working day in, day out. And I'm sure once the raw material abnormalities are over, the margins or the overall scenario will is better. And also, since lots of spinning capacity is stopped as of now, there's already a vacuum which is getting generated into the system. Hopefully, if things go well, there could be some possibility that the good demand could come in. But we have to wait and watch. I can't really predict in a precise way as of now. So, I'm sure we'll pass with this difficult time, also successfully for the next couple of months. And once our prices, raw material prices are internationally competitive, I think we'll get a much better future. We are still very, very positive on the overall industry scenario. So, thank you very much for attending this call, and consequently, from the management side, I can assure you whatever is possible, we are all day in, day out working on the same. Thank you very much once again.

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