Vardhman
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VARDHMAN TEXTILES LIMITED

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BSE Limited, New Trading Ring, Rotunda Building, P.J. Towers, Dalal Street, MUMBAI-400001. **Scrip Code: 502986**	The National Stock Exchange of India Ltd, Exchange Plaza, Bandra-Kurla Complex, Bandra (East), MUMBAI-400 051 **Scrip Code: VTL**

SUB: COMPLIANCE UNDER REGULATION 30 OF THE SEBI (LISTING OBLIGATIONS AND DISCLOSURE REQUIREMENTS) REGULATIONS, 2015.

Sir,

We refer to our letter dated 24th May, 2021 regarding the intimation of Analyst/ Investor Conference Call organized by B&K Securities to discuss the 4QFY21 results of the Company.

In this regard, please find enclosed the transcript of the conference call as required under Regulation 30 read with Part A of Schedule III of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

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 Q4 FY2021 Earnings Conference Call"

May 26, 2021

ANALYST: **MS. PRERNA JHUNJHUNWALA – BATLIVALA AND KARANI SECURITIES INDIA PRIVATE LIMITED**

MANAGEMENT: **MR. NEERAJ JAIN - JOINT MANAGING DIRECTOR – VARDHMAN TEXTILES**
MR. SUSHIL JHAMB – DIRECTOR (RAW MATERIALS) - VARDHMAN TEXTILES
MR. RAJEEV THAPAR - CHIEF FINANCIAL OFFICER VARDHMAN GROUP
MR. MUKESH BANSAL – SENIOR VICE PRESIDENT, (FABRIC MARKETING) - VARDHMAN TEXTILES
MR. AKSHAY JAIN – FINANCE HEAD - VARDHMAN TEXTILES

Moderator: Ladies and gentlemen, good day and welcome to the Q4 FY2021 earnings conference call of Vardhman Textiles, hosted by Batlivala & Karani Securities India Private Limited. As a reminder, all participants' 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 touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Prerna Jhunjhunwala from Batlivala & Karani Securities India Private Limited. Thank you and over to you Madam!

Prerna Jhunjhunwala: Thank you Rutuja. Good evening everyone. On behalf of B&K Securities, I would like to welcome you all for 4Q and full year FY2021 results conference call of Vardhman Textiles Limited. Today, we have with us the senior management including Mr. Neeraj Jain – Joint Managing Director; Mr. Sushil Jhamb - Director (Materials); Mr. Rajeev Thapar – CFO and Mr. Mukesh Bansal – Senior Vice President (Fabric Marketing) and Mr. Akshay Jain – Head of Finance.

I would now like to handover the call to Mr. Akshay Jain for initial comments. Thank you and over to you Sir!

Akshay Jain: Good afternoon and welcome to all. I would just to like to invite you all. I hope everybody is keeping safe in this environment.

Just some key highlights of the results, as far as the full year was concerned, we did not have as bad a year as we were anticipating during the first half and the COVID crisis known heavy and initial impact of shutting down of business in last April. Overall, we made about 6000 Crores of topline which was marginally lower than last year and an EBITDA of 929 Crores which is also marginally lower than last year and a PAT of 350 Crores, it was about 200 Crores low what we achieved in FY2020. Obviously, the performance of Q1 has been offset by reasonably good performance in Q4 where we saw almost Rs.1860 Crores topline for generating an EBITDA of north of 400 Crores. To give further colour on the very challenging and good times we saw in one year, I will hand over the call now to Mr. Neeraj Jain.

Neeraj Jain: Good afternoon everyone. This has been very different year. Initially, we started talking it has been very difficult year, but I think slowly as the things rolled over, we started talking it has been a very different year. So starting in the month of April where all the capacities were locked down, there was so much of uncertainty everywhere, not only in textiles, but everywhere and slowly things started moving up. So more and more demand was coming in, slowly the factories really geared up, so there has been an issue of workers availability and as the year passed things started settling down in a better way and by the end of the year things definitely improved in a much better way and as a result of that the overall numbers are still reasonable compared to the initial thoughts as mentioned back by Akshay also.

Specifically, on Q4, in this period the overall demand was good. Cotton both international and domestic started picking up. The yarn demand was good both in the export as well as in the domestic markets and as a result of that the prices were going up and the overall market was improving in a better way which is nearly from numbers also which has been declared.

The two businesses in the company spinning as I mentioned the overall demand was quite good and both in the export and the domestic market, prices started improving and as a result of that the margins definitely improved. So benchmark which used to be 90 cents to $1 definitely improved to a better margins and which is clearly depicted in the numbers.

Fabric also as the things started improving slowly the fabric also started picking up, the capacity utilization because earlier when the lockdowns had happened, most of the people were working from home and all the markets were closed. The capacity utilization dropped because we are there in only into the woven fabric which is more of a formal wear.

As things are becoming better towards the month of October, November, December, January we also started improving the fabric utilization also and from as low as 20 lakh meters–30 lakh meters, we improved almost about 120 lakh meters 130 lakh meters also in the month of March or so which is almost like 80%-85% of overall capacity. So, this was up to March 31 and after that we saw the second wave of COVID especially in Indian context.

Before that people were much more positive with all the vaccinations coming in, the number of cases have come down, so lots of optimism had started observing by the people and they were willing to spend money to start travelling and they were willing to look at shopping so that the normal days are back.

As soon as the second wave started in India, things were very different for this country though the outside things were better, but India came into a major difficulty and lots of states started looking for the lockdown again and the overall sentiment came down in domestic market. It had some impact on the yarn in terms of deliveries and the prices but definitely bigger impact on the fabric as again the formal fabric everyone was very, very negative and they start looking that if there was an apprehension in the mind of various people whether a national lockdown can happen or what will happen, and all the negativity started happening again and the demand came down in the India context.

Since the export demand was good especially the US has been quite good and they were looking at much better growth Q1 of this financial year. So, most of the US brands, they started ordering more to the various parts of the world and the demand for yarn of the textile product also kept on improving, so all the reduction which happened in the domestic market, most of the spinners, most of the knitters, they could ever close capacities for the export and the drop in prices were the consumption drop which happened here did not impact really much barring a period of two, three, four weeks where the sentiments was down.

Slowly, I think as the things are becoming better, so the domestic demand has also started coming up at least the mood is in a better form today and people started the operations again and it looks like people are much more positive compared to the mood which were there about a month–month and a half back.

Another impact in this period because whatever yarn has produced in India about 30% is exported, 70% is consumed in India and out of that 70%, our estimated another account 20% is the indirect export of garments and textile products or home textile etc. So practically all these spinning which is happening 50% material is sold in India directly or indirectly, 50% is exports direct or indirect.

Since the domestic demand came down, so it was looking like the spinning will be in an oversupply situation and the prices will start coming down and it happened for some small period of time but there is another impact which happened in this period, that is again a shortage of labor because typically April-May are the months where lots of labour go back to their villages for the wedding season or the harvesting season and since there was this fear of Corona once again, so lots of people were not coming back from the villages and as a result of that there has been acute shortage of labor in most parts of the country.

It looks like as per the various estimates done by the industry, the spinning industry also got hampered and the overall production capacity came down may be anything between 20% and 25%. As a result of that, it compensated the drop in demand indirectly and the prices did not come down to the same extent. As things are becoming better, workers are coming back, production is improving at the same time the consumptions are also improving and as of now I think the overall optimism is far better in the business and it looks like as of now things are stable.

On the woven fabric side, we started achieving the good capacity utilization as I mentioned earlier by February–March but the April–May things are not very good, even June I think it is relatively down compared to the figures we started achieving in the last quarter of FY2021 but the indication which we are getting may be from July onwards it looks like we will start improving there also but over there also the export demand is quite good as the domestic ones most of the people are expecting may be first week of June, Maharashtra, Delhi these states will start opening if not fully, partially which means once the consumption will start happening through the mood swing will improve and the overall optimism could be there which looks like as of now some early indications we are getting.

So, I will not speak much on the overall situation, but I think I will cover all your questions as long as the question-answer session, we will try to cover over there. Thank you very much.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Kirti Jain from Sundaram Mutual Fund. Please go ahead.

Kirti Jain: Congratulations for good performance in the current quarter. Sir, my question is with the existing set of assets assuming the current prices we would be able to do a turnover of 8500 Crores to 9000 Crores on the current asset base?

Neeraj Jain: We have done actual turnover of about 1800 Crores for the quarter on a standalone basis. Where the spinning utilization is full and the fabric utilization will be in the range of about 75% or so. So once based upon our production capability we can go up to 2000 Crores per quarter.

Kirti Jain: Sir my second question is with regards to our capex, in the current year we have spent 265 Crores, how much would be replacement maintenance and how much would be productivity enhancement capex in the current spends?

Neeraj Jain: Most of the capex which is being done is on two counts, so as is the capacity expansion may not be there in a big way, it is more of a replacement as well as debottlenecking of assets. So I do not think that the turnover may increase because of this 200 Crores, 264 Crores but yes this will support the business that in terms of whatever changes are required or whatever it is required by the customer, we will be in a position to produce that but I do not think the overall improvement on the topline can happen with this capex.

Kirti Jain: What is the capex plans going into FY2022-FY2023, any number you have plans?

Neeraj Jain: This year we have taken an expansion plant in spinning business. So we are adding about 60000 spindles on the spinning side and some bought out expansion which if I convert it into spinning side, the total will be close to about 100000 spindles or so, so this capex will be in the range of may around 700 Crores or so plus the normal capex or the debottleneck capex of another 200 Crores. 250 Crores and the total capex can be in the range of about 1000 Crores for the current financial year.

Kirti Jain: The 100000 spindles will add 5 billion topline roughly?

Neeraj Jain: It will be in the range of 550 Crores.

Kirti Jain: Thanks. Thanks a lot.

Moderator: Thank you. The next question is from the line of Pavan Ahluwalia from Laburnum Capital. Please go ahead.

Pavan Ahluwalia: Thank you very much. You have given us clear sense of production, capacity utilization and basically, if I have to interpret what you are saying correctly then some combination of domestic revival in India reopens plus strong export demand from western economy where obviously if people will go back to office etc., where demand for woven fabric right, should help us improve us 75% utilization of fabric side to hopefully as close to 100% if possible. So I understand what you are saying on the capacity utilization side. I had a question few on the margin side. Margins are obviously healthy this quarter we are in the mid May, overall what you have guided is your long-term range of 18% or 22%. I am just curious given what you are seeing in a cotton market right now and there are various factors of playing over the Gujarat cyclone in May have affected in some ways CCI obviously affected in some ways and when you put that together with the pricing you are seeing on the yarn front, in previous calls you talked about hesitation that buyer had in pushing prices through their customers abroad and that was going down the supply chain and now we are seeing across the US and Europe retailers are much more willing to push pricing, so I am curious when you put together what you are seeing on the cotton side and what you are seeing on the yarn side, is it fair to say that you will maintain these margins, should we expect or more likely to see upside or downside to these margins in the medium term? That is one question that I had and also if you can give us some sense freight cost are been going up everywhere, I am just curious how much that has actually affected your thought and whether you are able to pass that through, whether the industry is able to pass that through or not?

Neeraj Jain: First let me just take the question in the freight. On the freight side, just to give an idea the freight from India to China it used to take us about $200-$250 for a 40-meter container which is now increased to about $600. If we look at the Latin America which is a far of place, so it used to be about $1300–$1400 and from there it increased to $4000. So, same way the freight has been increasing everywhere but at the same time I think the demand of yarn was good overall everywhere so we could pass it on to the customers and there is no direct impact to the supply side because of good demand. So the customer is ready to pay that and it is built into the system. So when we are talking of the margins, it is definitely taking care of all the additional freight which has increased in this period of time. On the second question of the margins, if I look at today on the spinning side margins are better, but again we are not very sure how the things will be there, one point is clear the US margins are definitely very good. Most of the US brands are talking off double-digit growth compared to 2019 base. I am not talking about 2020 base. We are talking about 2019 base. UK started opening, may be Europe may take another three months–four months, they will also start opening. So, the overall consumption side looks like can be good, as the things will start opening up, the travel will start happening, the people will start going to the offices, so the overall demand from textile may improve only in this period of time. There is some demand reduction which may happen which is today coming from hospitals, bed sheeting, and towels primarily which may be in case of home textile but again over there also people are positive that the hospital demand may come down but the hospitality sector which is the hotels and other things may also improve in this period. So, considering today's aspects, it looks like the margin will be better but again the uncertainty is so huge, we are not very sure of second wave, third wave and what happen and not happen, so I think all fingers are crossed but if you talk to me today's basis, it looks like definitely situation is better.

Pavan Ahluwalia: Let me just push a little bit on that when you say fingers are crossed uncertainty is there, sounds like you are worried more about demand side uncertainty and not that worried about the ability to push through pricing or India versus US cotton price or government interference to make the Indian spinning industry less competitive, any worries on that front or are you quite comfortable on that front with the only variable dealing, you could have second wave, third wave, fourth wave which is basically an uncertainty for the world as we look for a year or two year until everyone is vaccinated?

Neeraj Jain: I think more worry is on the second part which you are mentioning but on the first part or the price push etc., since US demand is good, it looks like the brands will be in a position to pass on majority part of that.

Pavan Ahluwalia: Got it. So hopefully over the next year or so, we get to full capacity utilization unless this massive second wave, third wave around the world and if we get to 8000 Crores at a steady state margin 20% based on your long-term capacity expansion, we should assume backflows that 5%-7% a year unless there is some big inorganic opportunity that arises, is that a fair summary of kind of the medium term vision for the company?

Neeraj Jain: The only difference by and large but the only difference of premium or the only concern could be as the yarn prices start improving, the margin on the fabric will always come down and vice-a-versa. In this period since the yarn prices have been increasing and there is always a lag how much can be next products can be in a position to push or to pass on these prices there, there is the challenge and since the if I look at the entire textile change probably woven will be only segment which may take maximum time to pass it on because they have been suffering very badly in the past. Home textile they are running full, so there is no pressure on them, knitting is running full, so there is no pressure on them, they will be in a position to pass it on at the early stage, woven may take some time but eventually yes, if everything works well, as woven will also be in a position to go with them the only issue could be definitely some time lag for that.

Pavan Ahluwalia: Understood. Thank you very much.

Moderator: Thank you. The next question is from the line of Deepesh Agarwal from UTI Asset Management. Please go ahead.

Deepesh Agarwal: Good afternoon Sir. Congrats for a great set of numbers. My first question is on the yarn spread, the full impact of the yarn spread is reflected in this quarter or there is still some lead lag out there?

Neeraj Jain: No, the lags will always be there because generally in the export market, yarn is sold for three months to four month time, so I think I there could be some lag.

Deepesh Agarwal: Sir, continuing with the previous question, on the woven fabric, what is the extent of margin hit which you would have taken because of your inability to pass on the higher yarn prices?

Neeraj Jain: There are two factors. One is the capacity utilization margins coming down because of that and second is the increase in yarn prices, so margins coming down because of that. Since you are not in a position to utilize the full capacity, so your capability to enhance prices also comes down because the customer always find so much of surplus capacity available everywhere, so it is really, really difficult to pass it on to the customer. Mukesh, can you add where we are in terms of the margin or how much price increase you could get and what is the situation on the fabric side?

Mukesh Bansal: Actually, if you look at fabric being more closer to the end customer, number one, and number two, there are seasonal bookings unlike in yarn, yarn could be in shorter cycle of booking a delivery. In fabric, typically the booking cycle is minimum from three months to six months, so there is already a time lag of three to four months then we can push down the prices if the situation is normal. It will be difficult to give an exact number that how much we could absorb and how much you could pass on because the quarter is long time, the best estimate we could have passed on 60%-70% of the prices increase in the yarn level.

Neeraj Jain: That 60%-70% will not get transferred into the numbers because the capacity utilisation also counts, so they would be in a position to increase the prices but at the same time, since its capacity utilisation countdown, so your fixed cost increases, so absolute numbers is definitely will be lesser than that.

Deepesh Agarwal: Okay, let me rephrase this, compared to your normal margin run rate on the fabric, how far are you currently?

Neeraj Jain: I am sorry. We separately do not share the EBITDA margins on spinning or on the fabric side, so I have given you gist on where we are standing today but I think as such we do not share the margin separately.

Deepesh Agarwal: Okay and Sir, lastly if I see other expenses and if I adjust the hedging the losses in the previous quarters there it seems to be a sharp rise in the other expenses both on a Q-o-Q, Y-o-Y basis, any specific reason for this?

Neeraj Jain: Your query is regarding quarterly or annual?

Deepesh Agarwal: My query is in Q4 if I see other expenses and I compare it with the last quarter's other expenses or even same quarter last year and just adjust the hedging losses which you put in the other expenses in the last few quarters, there seems to be a sharp rise in the other expenses versus usual run rate, so any specific reason for this?

Neeraj Jain: Other expenses for Q4 2021 is at 266 Crores against 230 Crores in Q3 and 225 Crores last year Q4, so we are referring these figures only.

Deepesh Agarwal: Yes but 230 Crores also include 30 Crores of an hedging loss which is just a 3.3 Crores this quarter, so actually if you remove the hedging loss from the last quarter, your other expenses was closer to?

Neeraj Jain: Sorry, in Q4 some pending machinery repair work has been carried out, so certain building repairs and other works, so that has been captured in other expenses, so when the year as a whole if you see that part of expenditure which are not incurred or deferred in the initial quarter, that has been incurred in Q4.

Deepesh Agarwal: Okay, so this will normalize in the forthcoming quarters, right?

Neeraj Jain: Yes.

Deepesh Agarwal: Thank you.

Moderator: Thank you. The next question is from the line of Saurabh Patwa from HDFC Mutual Fund. Please go ahead.

Saurabh Patwa: Thanks for taking question Sir. Just two things, one is in the last quarter also we discussed on Xinjiang issue which has been because of the US banned China imports, so how much in the current did you attribute to that, is this the demand coming from a newer areas earlier importing from China or say like Vietnam or Indonesia or that impact is yet to be seen?

Neeraj Jain: It is very difficult to measure the impact because of that but definitely that has been an important factor, so most of the brands, most of the Europeans or the US brands which are talking of sanctioning the Xinjiang cotton, they are looking at the alternate source of products, so they are coming to India, they are going to the different countries and probably it has good impact and that demand which is coming in more and more yarn going even to China, Bangladesh, Sri Lanka, Cambodia etc., etc., so that the garmenting happen or even going to China, garmenting will happen in the ultimate garment will go from China to US or to Europe, so most of the brands who started sanctioning this, they are very firm on this same as of now.

Saurabh Patwa: Can it be interpreted in a way as in like even though the garmenting units may not come to India but the yarn export from India may actually grow very sharply over the next few years as things move out of China, the final garmenting may not come to India, but the adjacent yarn demand may still come to India, right?

Neeraj Jain: It could be like this because if we look at the garmenting in India there is no increase as of now but all other neighboring countries which I have mentioned including China, Bangladesh, Sri Lanka, Vietnam, Cambodia, so they may take up a bigger share of garmenting and the textile products both yarn and fabric may go from India to these places, it may happen.

Saurabh Patwa: Secondly as if the current quarter margins they have improved very sharply and I think they are at a multiquarter high and this is despite the fact that as you mentioned that we are operating at a lower utilization in terms of fabric and a part of fabric as well as spinning is yet to pass on, so my question was actually I wanted to understand on the fact that historically the benchmark was based on a X cotton price, now since the cotton price itself has moved up, so that benchmark spread can move up as well?

Neeraj Jain: First question till March, the fabric utilization was not that bigger a concern, that concern has happened rather in the month of April and May, so by March I think the capacity utilization on the fabric where they started touching almost 80%-85% so I think that was not a very big concern at that stage. I think we will have to wait and it can happen that the overall margin and spend of demand and these kind of needs continue, it may improve but as of now I think it is too early for us to look at this because there is another factor in this, since last year which I think was very, very weak, so it is not really much of material in the system so that is why the demand is also much higher. I am not very sure once the things become normal or the supply chain is normal after that the prices will be maintained like this or may be getting some correction. So, I think what we have shown in Q4 looks like as of day it can be maintained, it can be better than this as well.

Saurabh Patwa: Thanks a lot and all the best.

Moderator: Thank you. The next question is from the line of Siddharth Mohta from Principal India. Please go ahead.

Siddharth Mohta: Good afternoon to you Sir. My first question is on our capacity which you are putting up in spinning side, is that capacity for our captive use or it is for our external sales?

Neeraj Jain: This will be for the market.

Siddharth Mohta: Sorry, please can you come back?

Neeraj Jain: This will be for market. This will not be for captive.

Siddharth Mohta: Okay, so entire 90%-100% it will be externally sold.

Neeraj Jain: Yes.

Siddharth Mohta: In the previous questions, you were mentioning something about the margins. I could not catch up that particular thing, you said Q4 margin of around 20% it can be maintained?

Neeraj Jain: As of day, it looks like it can be maintained. The question will be, there was a question whether it can improve further or not, so that is where I said will have to wait and watch but it looks like at least Q4 can be maintained as on today's situation, here the demand is good. The second factor, I am also saying as of now the supply chain is very, very weak, so once the supply chain gets scaled up to your reasonable level whether we will have these kinds of demands or it will come down, we will have to wait and watch on that. So, in case after that if the demand comes down then there should be some issues on the margins restoring these kinds of margins.

Siddharth Mohta: Okay Sir, regarding the spread if you can just help and also with the cotton current cotton type in India as compared to the US cotton, so that is question one and the current Indian cotton price what would be the spread?

Neeraj Jain: What was your second question?

Siddharth Mohta: Second question based upon the current Indian cotton price, what will be the spread?

Neeraj Jain: The newer picture as of now is ranging in the range of about 82 cents, 83 cents, 84 cents and normally the carrying cost for bringing it to India will be in the range of about 10 cents to 12 cents so which means the landed cost of cotton in India will be range in between 93 cents–94 cents, against that the today's Indian cotton price is about 83 cents–84 cents, so there is a markup of there is a gap of 10 cents per pound as of now.

Siddharth Mohta: And regarding spread Sir?

Neeraj Jain: If you go by the Indian cotton of 84 cents, in that scenario the yarn cost will be in the range of about $2.40 dollar $2.50 dollar so the margin will be as of now will be close to about $1.30-$1.35.

Siddharth Mohta: Okay, so one can say it was quite similar what was there in Q4 actually or there has been some increase or some decline in the spread of 130 – 135 that you are mentioning?

Neeraj Jain: It is little lower compared to Q4.

Siddharth Mohta: Okay, Q4 it was lower than 130 – 135?

Neeraj Jain: Yes.

Siddharth Mohta: Sir, you have clearly mentioned that we are seeing a good demand as far as yarn it is concerned because of the China issue but so same is seen reflected for the woven fabric, can we see that similar opportunity?

Neeraj Jain: There could be. The only difference is since the offices are not opened so this is one segment in the entire textile chain which is not doing well as of now but once the offices starts, once the travels starts, once the events starts, I am sure the demand would come there also because the pipeline over there also is absolutely empty but is just a matter of time when all these countries start, when people start going to offices, it looks like there could be some demand hamper happen because lots of offices, lots of people are still talking off working from home only but I think majority of this demand may be mitigated once the overall lockdowns are over.

Siddharth Mohta: Okay, Sir this you are talking about the domestic market, I was talking about the export opportunity in the woven fabric, is there any possibility of that?

Neeraj Jain: They are same as far as the US brands are concerned, they are doing good so, whatever we are in a position to produce that is going directly or indirectly for the US brands only. So, the European, in the domestic market which is also very large is not doing good today and it is only the matter of time when this start opening, and things start becoming better over there for the woven fabric.

Siddharth Mohta: Okay. Sir, in your initial comment you had mentioned regarding the labour issue and all, Sir are they also facing the similar situation thereby we have to curtail our production?

Neeraj Jain: Fortunately, for us the issue is not there for two reasons, (1) we have almost 60%-70% people who are residing inside the factories, (2) I would say even during these lockdowns I think our people did a wonderful job and they were in a position to sustain the labour availability, so there has been till now fortunately for us there is no production loss happened, yes there are some people who have gone for the villages which is a normal tendency every year in the month March–April, so I am not finding any major deviation from what we have seen in the last couple of years as far as the this year is concerned on account of COVID. So, for us we are still in a position to run our operations smoothly.

Siddharth Mohta: Sir, within this yarn division, we have announced the capex, but at the same time in the last year or so there has been 5% to 7% overall spindle reduction in India and not much capacity it has come. Sir, do you think that apart from the export market, which is looking very strong that do you think that the mismatch in demand and supply has been also will provide some stability to the spread?

Neeraj Jain: It can happen. As we estimated that 5%, 7%, spindles that looks like is already gone out of the production and most of these capacities being inefficient capacities which are running only because on the marginal products and competing with the medium players. So, that capacity has gone and the demand will increase, this can sustain and it will always take about a year–two years before the major expansion can come in. So, it looks like because my personal belief is spinning business has seen very good margins in last six months. If these factories could not start during that period for them to revive is going to be a huge challenge, I mean if someone is not in a position to run when the margins are too good for them to restart looks like a big question mark, so that capacity is gone I am sure the remaining capacity can be definitely better efficient capacity.

Siddharth Mohta: Okay, that was helpful. Sir, apart from this 100000 marginal capacity can we hear something more capex coming on the background that our balance sheet continue to be very, very strong and we are seeing a very good demand in both the yarn and might be in future for the whole?

Neeraj Jain: We are looking at all options but at the same Vardhman is one company which will not take the benefit based upon short span of good margins or bad margins, so we have been expanding even when the industry was not doing well as a part of our long-term strategy. So, we are open to those ideas, we are evaluating all those options but as of now the only plan which is under execution is that is what I have shared with you.

Siddharth Mohta: Sir, one more question if you just permit me. Sir, any update on export duty or some incentive which government they are planning because we used to have this MEIS about the export incentive apart from yarn in the entire textile segment. So, are we putting any stage for the yarn segment also?

Neeraj Jain: The industry has applied or it is entrusted to the government. Now it is up to the government to decide finally. But as of now there is no update, there is no rates announcement, the government is only whenever we talk to them they are saying they are working on that, so we will have to wait and watch only.

Siddharth Mohta: Okay, Sir because of this delay from the government side, was there any impact on the export incentive for our segment, if in case of woven fabrics?

Neeraj Jain: Woven fabric, yes there is some impact because MEIS is not available, our understanding is it will be festive, or it will be available to us with effect from January last year. Now, we have to wait and watch, when the actual rates come in and what is the effective date the government will be announcing.

Siddharth Mohta: Would you mind, if you can share the export incentive which have forgone to quarter four. If it is small then you can skip this question?

Neeraj Jain: No, it is not really significant because it is only some of the segment of the fabric side MEIS or it is not going to make a huge difference in terms of the numbers which we have shown.

Siddharth Mohta: Thanks and best wishes for the coming quarter. Thank you.

Moderator: Thank you. The next question is from the line of Resham Jain from DSP Investment Manages. Please go ahead.

Resham Jain: Thank you for the opportunity and congratulations on very good numbers. So, I have two questions, first is on the capex Rs.700 Crores odd plus Rs.250 Crores, maintenance and on this Rs.700 Crores revenue you mentioned Rs.550 Crores of revenue. What kind of margin does this 100000 spindle is going to give us on this Rs.550 Crores approximately?

Neeraj Jain: Numbers will be same. We are talking on let us say 20%, so whatever we are talking on everything. So, spinning normally on an integrated basis, so the way things will roll out, (1) the spinning capacity will increase at the same time the weaving utilization will also improve, so my belief whatever the additional turnover happens our EBITDA margin would be same of what we looking at it today.

Resham Jain: Sir, my question is actually on that only, if you look at Rs.700 Crores investment and I presume that Rs.550 Crores revenue entail additional working capital investment as well, so roughly around Rs.900 Crores to Rs.1000 Crores of capital employed and at 20% we will be making in second or third year once the full utilization will happen around Rs.110 Crores odd of EBITDA and if you just calculate ROCE post tax ROCE on this, this will be like 8% to 9%. So, my question is when management thinks about new capexes, how do they think about to gain back that money back to shareholders through buyback or dividend versus investing in ROCE which based on what you said is around post tax ROCE of around 9% - 10%. So, if you can just explain the thought process on the capital allocation side? That would be very helpful.

Neeraj Jain: So, two factors, first is what will be the exact margin which would be there on with the expansion, the calculations are by and large correct but the only difference that when we are putting up a new capacity especially couple of states are offering good incentives, so this capacity is coming in Madhya Pradesh and the government over there is giving a good subsidy, both capital subsidy as well as interest subsidy. So, the actual cost of putting up these capacities will be less, and the margins would improve. So that is the small part which will be available for next two years, three years from only. The larger question is because we also debate every day this question is there a fun in expanding the capacity? If the return is really, really, very, very minimal; please try to understand the concept today as more and more brands are coming to India, the requirement is increasing, there is a lots of consolidation happening on the supplier side by various brands (1) and the domestic market also, the retailing is becoming more and more organized, people are coming, people are leaving the tailor segment and going in for the readymade, which means more and more brands, more and more retail outlets will be operating and India is still the overall organized retailing is on a miniscule basis which is likely to multiply in the times to come. All these brands when they come to India they are very clearly looking at, so India or any other market they are very clearly looking at that they are expanding their business and to that extent they require supplier base which can continue to support them or to supply them the requirement they have. Now, it is a debate or a question where difficult for me to put in the number that whether I should expand the business even if my returns are not good or if I have to continue to earn what I am earning today I will have to support my customer. Many a times we have taken this decision if in case for example there are lots of good brands where I am supplying the material to them, their requirement is increasing, in case I do not come up to their expectation of increased requirements, I will have to leave them or I will have to allow them to go to my competitors either in India or outside India. So, many a times the decision is taken based upon the customer requirement, product requirement, possibility of value addition of older capacity and creating new capacity for the basic products and it is not driven by the numbers only that we have to earn 12%-15% so we have to allocate capital or not. But it is driven by the overall business sense that if I have to retain customer is my product has to be alright, we have to take advantage of all the opportunities which are coming in then even small numbers the margins could be a little lower looking like for the expansions, but we still might have to do it. So, this is the way a decision is taken but considering all the subsidies and interest subsidies which we will be getting, the new expansions which are coming in will make sense over there also. So, that is what I could explain to you.

Resham Jain: Yes Sir, actually question is even if you look at little slightly longer-term FY2021 let us say we consider the last quarter's revenue Rs.8000 Crores of peak revenue and if you look at FY2018 number of around Rs.6000 Cores odd of revenue, we did almost Rs.3000 Crores plus of capex during this period of seven years and our revenue has increased by just around Rs.1800 Crores–Rs.1900 Crores even during this good cycle, so that is not is what I was thinking about that or when such a large capex is being carried out over a period of time and our ROCE overall on the incremental capital deployed is significantly lower and given that what valuation company is trading at doing buyback makes more sense in terms of allocating that capital rather than doing capex which is giving suboptimal returns. So, just from allocation perspective me including lot of other investors we keep looking at in this and wanted to understand more on this part?

Neeraj Jain: Let us say out of the Rs.3000 Crores, we would have done in last five years almost more than Rs.1000 Crores would be the replacement capex on the Rs.200 Crores a year. Now, that we will have to do whether we like it or not and it is not likely to be any topline improvement because of that. So, it is basically to just to keep your product quality to the mark where with the new capacities which are coming in today, because otherwise over a period of time customer will not buy your material, so Rs.200 Crores per year, Rs.250 Crores per year is the capex which is not going to generate anything than just to maintain the quality which is required as per the need as of now. If you look at the remaining capex then I am sure the ratio would be over a period of three to five years will be in the range of about 1:1, the capital output ratio and over there the logic would be whether you want to expand your customer base or how do you support them or how do you satisfy them because in case you are not in a position to meet their capital as their capacity requirement they will not be coming to a country like India. Today, we are talking of China plus one. China is the biggest exporter of garments in the entire world. The capacities are huge. They are doing almost $270 billion-$275 billion exports, India we are talking of $30 billion only and it is not only the numbers but whenever they are talking of, they want to talk to or they want to work with the larger sized companies or with the capacities which are available. I think over there as company we are nowhere. So, I think that is where most of these brands, the larger brands they hesitate to come to India and unless we can create capacities which can help them and the margins will definitely be available, they will come, but question will be egg or a chicken story, all these brands will not come to you or India. Today if you look at the garmenting in India there are handful of four people or five people only who will be doing more than Rs.1500 Crores – Rs.2000 Crores of exports today,whereas they are not interested in these only four, five, six players to operate on this. Now, unless the entire cluster, so same is the spinning capacity that the largest in India 1.1 million spindle on the spinning side still it will continue to be a decent capacity as in China you have companies working with a 5 million spindles, 6 million spindles also. So, I think when we are talking of the very large spreads to come to India, we will have to offer them the capacity, we will have to offer them the delivery period of whatever they require for the garmenting or for the textile products and for that the largest capacities would be required without that will be impossible to sort out.

Resham Jain: Thank you very much for your detailed answer, very helpful. Thank you.

Moderator: Thank you. The next question is from the line of Anil Kumar Sharma an Individual Investor. Please go ahead.

Anil Kumar Sharma: Good afternoon and congratulations for good numbers. Sir, my question is on the inventory side, inventories are aroundRs.2500 Crores, can you give the detail of the raw material and finished goods, number one. Number two, receivables are around Rs.1000 Crores and what are the number beyond 90 days?

Neeraj Jain: On inventory side, maybe it is raw materials which are about Rs.1800 Crores and finished goods are about Rs.450 Crores, remaining is small item of WIP and stores and spares. This is the composition of inventories.

Anil Kumar Sharma: There is an increase in the receivables also, I think your cash accruals have decreased?

Akshay Jain: Increase in receivable is there to the extent of about Rs.200 Crores because major export business has taken place as then explained by Mr. Neeraj Jain in this year. So, export space which is usually for a period of 90 days to 120 days, so debtors are higher to that extent in domestic, the contracts are for 30 days to 45 days only also the sales prices are also higher to some extent that is the reason.

Anil Kumar Sharma: Alright, okay Sir, only my last question is that, regarding Rs.1800 Crores raw material what is the present cost of the cotton that is our cost is lesser than that or higher than that?

Neeraj Jain: I cannot give you my exact cost, but I can only say our cost is surely lesser than the today's market price.

Anil Kumar Sharma: Thank you Sir, and wish you good luck. Best wisher for the coming year. I hope the next year you do not give the estimate, but can you give the estimate for this coming full year?

Neeraj Jain: No, we do not give any guidance on the estimate numbers.

Anil Kumar Sharma: Thanks for very good numbers.

Neeraj Jain: But I can tell you that people tell me the numbers which is very close to most of the times close to what we cash even, you guys are smarter than us on that.

Anil Kumar Sharma: Best wishes for you at coming year. Thank you.

Moderator: Thank you. The next question is from the line of Keshav Garg from CCIPL. Please go ahead.

Keshav Garg: Sir, very good afternoon to you and congratulations for great results. Sir, unfortunately you subsidiary Vardhman Acrylics this time you did not forgot to declare dividend and Sir now the cash on the books of Vardhman Acrylics is around Rs.350 Crores and market cap is also the same, so until there is some dividend there is nothing forward to look for the shareholders for that subsidiary and this time Vardhman Textile also gave healthy dividend you could have Vardhman Acrylic could also have paid our and there would have been not tax implication unlike last year. So, can we look forward in future for some kind of dividend?

Neeraj Jain: I am sorry. I cannot really comment on because that was the definite call taken by the Vardhman Acrylic Board of Directors, so I can only pass on the message or the grievance of shareholders to them rest it is their decision whether they want to declare or not. So, I as a joint MD of Vardhman Textile, I have nothing to really to look at that.

Keshav Garg: Sir, and also there was an announcement in that the workers had not reported to work, so has that issue been resolved now?

Neeraj Jain: Not really, so that issue still continues, plant is closed and as of now nothing is happening there.

Keshav Garg: Sir, and also recently in the newspapers it came that for Sintex Industry Vardhman Textiles was also bidder, but it backed out, so could you share with us that, what was the apprehension, was the quality of assets was not good enough or the pricing was not up to your expectations?

Neeraj Jain: We have never shown any keen interest to buy that asset. We have never bidded for that. So it is not that we have backed out but yes we look at the asset, we try to understand but we have never looked at it seriously that we want to acquire it or not. So, it is not that we have backed out. We never gave any intension to buy that.

Keshav Garg: Okay, Sir.Also, I wanted to understand that some garmenting companies recently in their concall, they said that in first quarter the yarn prices is coming down, it is in downward trend from Q4 level, but you are saying that it might actually be either same or better than Q4. Sir is it because of your low-cost inventory that you are saying this or the spreads had actually reduced, which one of it is the case?

Neeraj Jain: The yarn prices started coming down about a month back or so then the lockdown started happening. So, in the last two weeks after once because at that stage the COVID cases were increasing, there were lots of uncertainties in the minds of people, so yarn prices started coming down. But as the things are now stabilized, the cases have come down, people are hoping the lockdowns to start opening soon, so the prices have again started going up and it as of now stabilized to what was there towards the end of March prices.

Keshav Garg: Thank you very much and best of luck.

Moderator: Thank you. The next question is from the line of Nirmal Shah from Seraphic Management. Please go ahead.

Nirmal Shah: Good afternoon, Sir. My question was more on the supply side. You have mentioned in the earlier reply that the supply side is getting consolidated, but just to follow up that do not you think the margin profile of this industry needs to little bit improve to compensate for a better returns for the capex. Do you see that as a possibility, or you do not?

Neeraj Jain: Yes, it is a low margin industry. I think the margins can improve only either with the higher demand for the products or the supply side coming down. So, both ways and to just in the industry where it is a unconsolidated industry almost 2500 companies competing with each other. Unless some amount of consolidation happens or unless some demand improvement happen or some supply side cuts happen, the margins would not improve and anyone working in the industry will like margins to improve, but whether we can do something or not. So, if always considered spinning on a very, very low margin industries and this is probably one of the years where I think things have started looking up we will have to really be watchful whether this can be a permanent change or this is only a temporary base, looks like as of now this continues but let us wait and watch.

Nirmal Shah: Sir, just follow up to that basically if you look at the capex intensity in the sector and traditionally the way this sector has become an issue for bankers, do you see now that in a forthcoming capex the larger and the better consolidated companies would only be in a position to do a big capex compared to the situation what was there a decade back?

Neeraj Jain: My personal feeling is yes, because banks have become very choosy to contact to these smaller companies where the overall NPAs have been huge. So, the bankers also become very choosy, and it may happen that more and more consolidation and more and more capex happens by the more organized players.

Nirmal Shah: Sir, effective then does not mean that it would in some way or other should also play out in margins though right now you are sceptical about that, but if it gets consolidated in hands of few people does it give you a better confidence than what it used to be?

Neeraj Jain: It will give but it is a long journey. Today we are talking of 2500 spinners in the country so it will take a long time but yes, as if the consolidation starts happening and more organized players start working definitely their capability, their costing, their product qualities or their competition will be better and margins may improve, so it is a long journey.

Nirmal Shah: Sir, just last question from my side, how do you think this a Sintex Industry capacity would have played any role because they have some 700000 spindles if I am not wrong, it would have played out in some way or another, do you think that has also helped to the overall industry?

Neeraj Jain: Yes, any company which is not operating at a full level will help the remaining players to do better, but if I look at the overall capacity in India is almost 50 million spindles, so 700000 spindles are only 1.4%. So, from that perspective it is not really big, but at the same time any capacity which is not operating well helps the remaining industry to do better.

Nirmal Shah: Thanks a lot, Sir.

Moderator: Thank you. The next question is from the line of Manish Dhariwal from Fiducia Capital Advisors. Please go ahead.

Manish Dhariwal: Thank you very much for this opportunity and thanks to the management for sharing very, very deep insights on the subject of capital allocation, return expectation, a wonderful discussion. I would like to basically take it forward by running the aspect of spinning versus the Textile capacity that is the woven capacity. Vardhman, is being one of the most efficient players in the game has consistently grown and has in the past reported operating margins over 20%-25% as well. However, with the woven capacities coming up and the fabric side of the business coming up, we note that the margins at an overall level have been coming down. I wanted the management's kind of perspective on the way they see this aspect and maybe it is a good idea to become amongst the largest yarn players rather than going up the value chain supposedly maybe a better idea but may not be, because the fabric side actually it seems that since the time things have come up the margins have come down in fact would have your perspective on that?

Neeraj Jain: The important point would be is not only Vardhman I think we will have to look at what is the margins of the competition also. So, as the competition keeps on improving or increasing I think the margins overall will keep on coming down only. So, it is not only that the Vardhman margins earlier were this and after weaving capacity it has come down, I think the better way of looking at it that where the competition is starting, so is it a case that the spinning margins of the omni spinners are better or they are maintained, but the Vardhman margins have come down because of the weaving capacities. I think that is not the case. We will have to look at it relatively for a year that what is the margin of other players or a standalone spinner vis-à-vis anyone who is the forward integrated. So, if you look at or you do, you are doing your analysis with that, I am sure you will get an answer to that. Two, I think there are some segments which has to be excluded which are doing extremely well for example Home Textile is doing extremely well as of now, the Knitting Garment is doing extremely well because of work-from-home, so if you exclude those exceptions, I am sure the medium-term analysis will give you some idea on that.

Manish Dhariwal: Thank you so much. If I to have your view that going forward Vardhman will like to be more of a fabric seller to the market or also a yarn seller?

Neeraj Jain: No, we have always been a yarn seller also, so out of the total spinning capacity we have, our allocation to internal weaving is only one-third, so we have always been selling anything between 60% and 70% of the market which will continue.

Manish Dhariwal: Thank you for the reply.

Moderator: Thank you. The next question is from the line of Riddhima Chandak from Roha Asset Management. Please go ahead.

Riddhima Chandak: Thank you for the opportunity, Sir. My question is on the capex part, so this Rs.700 Crores capex it would be from the debt or from maintenance accrual how much it would be?

Neeraj Jain: Madam, roughly Rs.450 Crores would be funded through debt and the rest would be internal accruals.

Riddhima Chandak: Okay, and in terms of EBITDA margin as you said that yarn prices have again started increasing basically. So, are we passing on these increasing yarn prices to our customers and fit to our current EBITDA margins of 18% to 22% guidance?

Neeraj Jain: Madam, since we are selling the yarn improving prices are actually helping. We are talking about pricing that we are able to pass on to customers. These prices are what are accruing to the company.

Riddhima Chandak: In terms of out of our total textiles revenue what is our yarn and fabric revenue contribution in FY2021?

Neeraj Jain: Madam, we are not giving out the breakup.

Riddhima Chandak: No problem. Thank you so much.

Moderator: Thank you. The next question is from the line of Nagraj Chandrasekar from Laburnum. Please go ahead.

Nagraj Chandrasekar: Thank you and great numbers. Just wanted to get a sense of our current cotton inventories given at Rs.1800 Crores raw materials it looks somewhat similar YoY at a much higher cotton cost of say last year on this time cotton prices would maybe 65 cents, right now I am guessing your average cotton inventory cost of around 75 cents to 80 cents. How many months of production are we covered for now given since we are now going to produce at 100% as well for the foreseeable future and where we see global cotton prices also trending in the next few months given the future prices have been coming down partly because speculation has been curtailed by a bit in China and other places but how is production looking in various geographies and where do you see both of these things playing out?

Akshay Jain: We did not quite get the second part of the question, so I will ask you to repeat let me just answer the first part. Our inventory policy for cotton remains similar to last year where we keep roughly between six months and eight months of cotton on our books from March 31, and there has been no marked change in that policy between last year and this year. If you could just repeat the second part of the question that you were asking on the supply side of cotton, we kind of missed that?

Nagraj Chandrasekar: It is just a follow up. We typically buy in November for seven, eight, nine months period, you are saying you have covered for till this September–October as well?

Neeraj Jain: Yes.

Nagraj Chandrasekar: The second question was outlook on global cotton prices or the spill over cotton prices given futures have been coming down, how was production in different geographies looking, what is your sense?

Mukesh Bansal: Even next year, next cotton season also the production of cotton would remain same as was last year, but the consumption would definitely go up that can lead to increase in cotton prices in the next season.

Nagraj Chandrasekar: Got it. Thank you.

Moderator: Thank you. The next question is from the line of Rishabh Makhija an Individual Investor. Please go ahead.

Rishabh Makhija: Sir, thank you for taking my question, most of my questions have been answered. Just a little bit on the debt which will be used to fund our capex next level, so what was that debt be at approximate rates, the rate of interest, then what is the current average cost of debt?

Akshay Jain: The debt will be raised in the range of somewhere between 5% and 6% for us six year to seven years period.

Rishabh Makhija: Okay and the current cost of debt?

Akshay Jain: Sir, overall net of the subsidies I think cost of debt should be in the range of 3% to 4%.

Rishabh Makhija: Just want to understand the future debt plans and just a sense on when that will peak out and have there been any thoughts on that?

Akshay Jain: Even if we assume whatever debt Rs.400 Crores – Rs. 450 Crores that we are raising we believe that during the year our cash accruals will be significantly higher than that, so I do not think the debt will significant or at least on a net level the debt will not increase significantly during the coming year and obviously the debt profile beyond that will depend on the kind of growth plan the company will have beyond FY2022.

Rishabh Makhija: Okay, understood. That is all from my side. Thank you and good luck.

Moderator: Thank you. Ladies and gentlemen, as this was the last question for today. I would now like to hand the conference over to Ms. Prerna Jhunjhunwala, for closing comments.

Prerna Jhunjhunwala: Thank you, Sir. Thank you Rutuja. I would now like to transfer the call to the management for their closing comments.

Neeraj Jain: Thank you very much for all of you to join this call. We could explain our perspective as well could answer your questions. We have always been maintaining that despite lots of uncertainties and every day the things the changing in a big way good, bad, so I think the uncertainty as of now is huge and we will have to look at what kind of things will happen in future and how do we prepare ourselves to take care of the same. Having said that, I have always been mentioning that internally the management is really, really, very, very active on looking at all these issues, concerns, crisis and the opportunities and we are working really hard to take advantage of whatever is best possible in this scenario. I can only assure as management we are all alert of our responsibilities and duties and really try and working hard to achieve the maximum results for the organization. Thank you very for all of you to joining this call and looking forward to meet you or talk to you once again during the next call. Thank you very much.

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