



“Vardhman Textiles”

February 3, 2011



**MODERATORS: MR. SACHIT JAIN
MR. RAJEEV THAPAR
MS. JASMEET GILL**



*Vardhman Textiles
February 3, 2011*

Moderator: Ladies and gentlemen good afternoon and welcome to the Q3 FY11 Earnings Conference Call of Vardhman Textiles hosted by IIFL. As a reminder for the duration of this conference all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need any assistance during this conference please signal an operator by pressing "*" and then "0" on your touchtone telephone. At this time, I would like to hand the conference over to Mr. Sachit Jain, Executive Director Vardhman Textiles. Thank you and over to you, Sir.

Sachit Jain: Good afternoon everybody. Thank you for attending this conference call. Third quarter results are out as of now only standalone company. I know that we have committed, we will be presenting consolidated results but for certain reasons because of logistics we could not hold the meetings of the subsidiary companies, which will be held in the next week or so and after that we will again separately printout the issue of the consolidated results. Overall, the company has done okay and actually it has done better than what we had anticipated. We were anticipating a drop in profits in the third quarter compared to our second quarter. I have along with me Mr. Rajeev Thapar our CFO and Ms. Jasmeet Gill who heads our Investor Relations and Finance Treasury Operations. So I will hand over to Ms. Jasmeet to take you through some of the numbers and after that we will open to some questions. Thank you.

Jasmeet Gill: Good afternoon everybody, this is Jasmeet here. I will just take through the numbers first. To start with the sales of the quarter have been 996 Crores as against 699 Crores from the last quarter so that is an increase of 43% and YOY is 2700 Crores against 1986 Crores from the previous year. The segment wise breakup of the sales would already be in front of you. So if you look at the PBDIT, PBDIT has increased from 144 from last year's quarter to 278 in the December quarter, an increase of 93% quarter-on-quarter and majorly the increase is coming from the yarn business where the PBDIT has increased from 102 Crores from December 2009 quarter to 216 Crores in December 2010 i.e., an increase of 112%. There is an increase in the fabric business PBDIT as well, which has gone from 33 Crores in December 2009 to 45 Crores in December 2010 an increase of 38% and year-on-year the PBDIT has increased from 405 Crores to 689 Crores for the company as a whole i.e., an increase of 70% majorly again coming from the yarn business, which has increased from 284 Crores in December 2009 to 534 Crores December 2010, an 88% increase. The fabric business PBDIT has increased by 21% going from 85 Crores to 103 Crores in December 2010. If you look at the margins there has been quite a big jump in the margins in the December quarter. The gross margins of the yarn business have increased from 19% in December 2009 quarter to 27% in December 2010 and the year-on-year increase is going from 18% to 25%, so December YTD the margin for the yarn business are 25%. In fabrics the margins have remained more or less static; because of the increase in the yarn prices the fabric business has not shown a corresponding increase in the gross margins. Apart from that if we talk about the production, the yarn business production for the quarter has been relatively same, there has been an increase of about 4%, so the production for the quarter is from 32,550 tonnes, the capacity utilizations in yarn are again at around 98%. There has not been much change quarter-



Vardhman Textiles
February 3, 2011

on-quarter or year-on-year. In the fabric business, there is a jump in the capacity utilization for the processed fabric business of the company, which has gone from 72% in December 2009, I am talking about the capacity utilization, to 90% in December 2010, which means that the production has increased from 162 lakh meters in processed fabric to 202 lakh meters in December 2009. Apart from this the reason why the turnover has increased in the yarn business is because in spite of production remaining the same it is because the realizations have increased quite a lot. Quarter-on-quarter there is an increase of 43% in the yarn realization, the average sale realization, and year-on-year there is an increase of about 35% and along with that the grey fabric realizations are also higher, they are about 34% higher for the quarter and 24% higher for year-on-year number and as for processed fabric there is an increase of 24% in the processed fabric sales realization in the quarter ended December 2010 and for the year there is a 16% increase in the sales realization.

Sachit Jain:

These are the numbers and of course there are certain reasons for some of the numbers. Overall, in third quarter as I said earlier that our performance has been better than our second quarter this year itself though we were predicting a lower return; primarily we were anticipating a huge increase in cotton prices, which happened. We could not anticipate the huge increase in yarn prices, which happened simultaneously and yarn prices actually increased more than cotton prices. Also, we were having certain stocks of old prices of cotton lying with us, which were to the extent of at least one to one-and-a-half months of cotton. So, we had only one-and-half months of impact of the newer cotton and if you recall that there was uncertainty and there was an announcement of ceiling of 720 million kg and no further registration of cotton yarn exports. So as a company we diverted large amount of quantities from our domestic market into exports, also our finished good stock we brought that down to the barest minimum, so overall the export sales in the month of December has been far higher than what is normal. In a sense we have pulled some profits from the fourth quarter into third quarter, which is the reason for the third quarter profits going up substantially. The heartening part is that despite this large increase in yarn prices, fabric also we have seen traction, in grey fabric we have been able to increase, pass on the increase of fabrics to a large extent, which is why the EBITDA margins have maintained from what it was last year 16% to 16%. In processed fabrics, the biggest impact is actually the increase in utilization, which has led to spreading of some fixed cost over a larger volume and which has overall led to the EBITDA of the fabric business getting maintained. So the hearty part is that I have not seen in the last 10 years of working with the processed fabric that prices of fabric actually increasing, it is only in the last two years that we are seeing an increase in fabric prices so that was the most heartening part. Apart from that the clear concern going forward into the fourth quarter was that the cotton prices kept on going up and today the domestic prices Shankar-6 variety is Rs. 22,000, and at the cotlook A index we have touched all time record today it has crossed \$2 per pound, so in a sense we are already in funny territory. Can this continue to keep rising? Difficult to say. Eventually at some stage it will fall but our feeling as of now is that even if they fall the correction in the next six months may not be too high, it is only July-August onwards that we expect a possibility of correction in cotton prices to begin to happen in anticipation of the new crop, which would start coming in from September. Yarn



*Vardhman Textiles
February 3, 2011*

prices to just give you an idea of 30 scone, which is almost like a standard product to give you price idea, which in September 2009 used to be \$2.60 and in the last 10 years it has fluctuated between \$2.20 and \$2.80 in September 2010 touched \$4, in October 2010 it touched \$4.60, in November it touched \$6, retreated in December to about \$5.50, \$5.60, in January again around \$5.50 and it has risen again in February marginally to \$5.70. We had met lot of investors when we were doing our road show before our QIP, at that time we had shown that \$4 or \$4.50 was about the highest yarn prices could go, so clearly as a management we failed to anticipate that the yarn prices could raise to these levels. We were not expecting that, but then as a policy since we do not book too much forward we could take advantage of those improvement in prices and those gains accrued to the company.

Moving ahead currently still there is a policy standstill on cotton yarn exports and as a company we have certain products of yarn, which were going to the domestic market, certain going in for domestic consumption, internal consumption, and certain products earmarked for exports, so we are making sure that if some extra quota gets released, which is likely whatever gets will get exported, otherwise the company has the ability to stock yarn and we will not to distress selling in the domestic market and will be able to export those goods in the first fortnight of April, which means that as far as operations go the current profitability is reasonably good. Reported results may depend for the fourth quarter on the yarn export policy but clearly fourth quarter also is going to be significantly better than what we had earlier estimated. Of course, it will not be comparable to third quarter results. I think these would go so far as on general comments and now we would like to throw the field open for questions.

- Moderator:** Thank you very much Sir. Ladies and Gentlemen, we will now begin with the question and answer session. Our first question is from the line of Dhvani Modi from ICICI Securities, please go ahead.
- Dhvani Modi:** I just wanted a sense on how much cotton we have bought in the current season and what would be your average price for the same?
- Sachit Jain:** First of all thank you for congratulations. These figures of cotton stock and cotton prices are internal company information and normally our policy is by March we have minimum about six months stock of cotton and as of March we will have six months whether we will have more or not it is difficult to predict and say out clearly as this point in time and normally we complete this purchase of cotton anywhere between January to March, which again is something that is internal matter and not disclosed normally.
- Dhvani Modi:** Okay Sir, but if you can just give a fair sense because the new crop would come in sometime October-November and that is when most of large players and new players start their buying for the rest of the year. As per my understanding that is when the quality is the best, so if you can just give some sense at least of what the average purchase price?



Vardhman Textiles
February 3, 2011

- Sachit Jain:** I do not think that is something - because we are still in the middle of our cotton buying season, these are things that we do not normally disclose. It would be lower than the current market prices.
- Moderator:** Thank you. The next question is from the line of Abhilasha Satale from Techno Shares and Stocks Limited, please go ahead.
- Abhilasha Satale:** Congratulations for very good set of numbers. Sir just a couple of questions like what was your cotton cost for the quarter?
- Sachit Jain:** Roughly around Rs.90 per kg.
- Abhilasha Satale:** At current prices it is working out almost like 40-50% higher than that?
- Sachit Jain:** Last year it was 38% higher than last year same time quarter.
- Abhilasha Satale:** But in the current quarter also Sir whatever fresh cotton you might be buying...
- Sachit Jain:** Because as we said that one the market prices of cotton went up even the new cotton it has been rising and over and above that last quarter we had some old cotton lying for at least one-and-a-half months of consumption.
- Abhilasha Satale:** Sir, just wanted to get a sense that going forward how the margins will shift because as of like in the past quarter everybody has made especially you have been holding almost one-and-a-half month inventory, you have made more than Rs.50 per kg spread on your yarn business, so going forward with this cotton prices though you are not disclosing the cotton cost as of now but like what is your sense at \$5.5, \$5.7?
- Sachit Jain:** Profitability is reasonably good.
- Abhilasha Satale:** But we can safely assume it in the range of Rs.40-45 to be maintained over the medium term?
- Sachit Jain:** We would not like to again go into specifics or numbers there, we do not as a company normally do it, but we are saying that the fourth quarter is going to be significantly better than what we had estimated in terms of operations internal. We do not know how much of profit will get translated into physical results because as I shared that we might stock the goods meant for export, which might be exported physically in the first fortnight of April. So there is a possibility that some profits of fourth quarter may get pushed into the first quarter of next year all depending on government policy, so in terms of internal operational cost and performance the fourth quarter is going on fine.
- Abhilasha Satale:** Okay fine sir. How much is the difference between domestic and export yarn prices, international prices?



Vardhman Textiles
February 3, 2011

- Sachit Jain:** It is 3%-5% depending on product to product.
- Abhilasha Satale:** These prices you have mentioned that is your realization?
- Sachit Jain:** It is about 5%.
- Abhilasha Satale:** Sir, in the opening comments you mentioned in September, October and November these realizations, these are your realization or actually domestic prices you have said?
- Sachit Jain:** These were market prices kind of thing these will not be our realizations.
- Abhilasha Satale:** But in the domestic market?
- Sachit Jain:** Our realization will be little lower. See every month you have sold forward for a month and a half, so our average prices maybe little lower than what the prices that I mentioned.
- Abhilasha Satale:** But these are in the domestic market or in the export market?
- Sachit Jain:** I was sharing dollar prices.
- Abhilasha Satale:** So it is export price okay, just to take our benchmark further. Okay fine sir. I just want to know about your expansion plans, you were mentioning and in the opening remark also there was no mention about 800 Crores expansion what you had announced in the last quarter to go, so what is the status on that and like even production target from those 55,000 spindles, which are anticipated to come on stream or even FY12 production target?
- Sachit Jain:** Now that 800 Crores, we were saying it earlier that 800 Crores was expansion plan and about 350 Crores were firmed up, now in our strategic plan and then later on by the board we have approved an expansion plan going up to about 1500 Crores, which is going to include spinning one plant coming up in Himachal, which will be of 20,000 spindles, two plants coming up in Madhya Pradesh of 55,000 spindle each that means about 110,000, so this 130,000 spindles coming up and after that there will be another 60,000 spindles coming up in our Budni composite mill plant. Apart from that we are going to add about 600 looms and we will add another line of processed fabric where the building and infrastructure is already in place, we will just add in the plant to go in which will be about 30 million meter increase in capacity of processed fabric. This will take about two to two-and-a-half years to complete. That will start into operation from second quarter next year parts of this expansion will start coming into operation.
- Abhilasha Satale:** 55,000 spindles like when will those spindles come on stream?
- Sachit Jain:** In the first quarter of next year by about June, partly first quarter, partly second quarter.
- Abhilasha Satale:** Can you give production guidance for FY'12?



Vardhman Textiles
February 3, 2011

- Sachit Jain:** I do not think it will be possible to give that because normally in spinning we do not give tonnage we talk about spindles and grey fabric we normally talk looms and processed fabric we talk capacity in meters. Because the same spindle depending on the product that we make the tonnage could be very different.
- Moderator:** The next question is from the line of Nilesh Doshi from Techno Shares and Stocks Limited, please go ahead.
- Nilesh Doshi:** Sir, you mentioned you gave some rates two-thirds as average from September till date, if I observe that somewhere we had a \$6 prices and I think the cotlook at that time was around 1.8 if I recall, now today the cotlook is 2 and the price is at about 5.5 cents, so are we seeing some pressure on the export especially the yarn price on export?
- Sachit Jain:** No, there is no such pressure, you see sometimes when the prices are going up, sometimes there is panic buying also, which can lead to an increase, a temporary increase, which got immediately corrected; \$6 lasted for a very brief time, I will not call that as a steady price I doubt lot of transactions would have got completed at that price, but \$5.50 has been almost steady for now over two months now, so this seems to be \$5.45, \$5.70 around the range this is the range at which the prices have been fluctuating now.
- Nilesh Doshi:** How is the demand in international market?
- Sachit Jain:** Demand is very good, in fact customers are willing to book even at \$5.50 or \$5.40, and there is no problem on demand side.
- Nilesh Doshi:** Which country is major importing from India currently or may be?
- Sachit Jain:** China is the biggest market. The biggest driver for this entire thing is China.
- Nilesh Doshi:** China not looking at putting up spindleage going ahead?
- Sachit Jain:** I doubt so because as the costs in China are increasing they would also gradually go up the value chain to more specialized industries and leave out spinning so they are already huge in spinning and they will continue to invest money in upgradation of their old spinning mills but to think that they will be large growing aggressively in spinning looks difficult at this stage.
- Nilesh Doshi:** So we do not expect much additional capacity coming in, could be replacement?
- Sachit Jain:** There will be some, but not huge increases. In the next 10 years we expect India will be the largest recipient of spinning expansion.



Vardhman Textiles
February 3, 2011

- Nilesh Doshi:** Okay, but then we are not seeing much expansion by other manufacturers in the country currently. Are you seeing that something like 3 million or 4 million kind of spindleage can come in our country?
- Sachit Jain:** 2.5 to 3 million we are expecting capacity of that kind to come in the country.
- Nilesh Doshi:** Large percentage of that would be a replacement?
- Sachit Jain:** There will be replacement and there will be expansion, both will happen but the larger proportion of this 3 million will be growth.
- Nilesh Doshi:** How about the fabric exports, are we equally competitive?
- Sachit Jain:** We are competitive, as a company we are exporting to Bangladesh in fact we have now opened a branch in Bangladesh for our fabric exports.
- Moderator:** The next question is from the line of Manas Manjumdar from SPA Securities, please go ahead.
- Manas Manjumdar:** Congratulations on good set of numbers. I missed out the openings part so please excuse me if my question has already been answered. 42% increase on your gross sales, how much of it will you attribute to the price growth?
- Sachit Jain:** Mostly to price increase in yarn and in fabric, processed fabric both price increase and better capacity utilization in processed fabric.
- Manas Manjumdar:** Okay, so how much will be the price increase rate we should be considering?
- Sachit Jain:** Price increase is 24% in processed fabric, 34% in grey fabric, and 43% in yarn.
- Manas Manjumdar:** Sir, can you give me the breakup of your export figures for this segment?
- Sachit Jain:** Yarn exports were about roughly 35% to 40%.
- Manas Manjumdar:** In fabric?
- Sachit Jain:** Fabric could be much lower.
- Manas Manjumdar:** What was it last year, quarter-on-quarter?
- Sachit Jain:** Last year was about 25-30%, so the export has increased.
- Moderator:** Thank you. The next question is from the line of Bhavin Chedda from Enam Holdings, please go ahead.



Vardhman Textiles
February 3, 2011

- Bhavin Chedda:** Good set of numbers. Just a few questions; what was the gross debt and the cash balance as on December 30th?
- Sachit Jain:** About 2700 Crores in December.
- Bhavin Chedda:** And cash and liquid investments sir?
- Sachit Jain:** Should be around 550–600 Crores but most of it is partly already liquidated now and some of it would be liquidated when we are repaying our FCCB next week.
- Bhavin Chedda:** Sir, you mentioned 1500 Crores of CapEx over next two years which includes spinning 20,000 two plants of 55–60, so what will be the yearend spindle capacity, if you can give March 2011, March 2012, and March 2013?
- Sachit Jain:** March 2011 will be almost the same; we have not worked it out clearly, March 2011 will almost be the same, March 2012 1,30,000 spindles should be there in March 2012 and in March 2013 another 60, 000 spindles should come in.
- Bhavin Chedda:** You have placed orders for this entire 2,00,000 spindles to the equipment supplier?
- Sachit Jain:** Little bit is still left but otherwise mostly done, the last 60, 000 is still left.
- Bhavin Chedda:** If you can name the supplier, Sir?
- Sachit Jain:** See, we buy from combination of machine from KTTM that is Kirloskar Toyoda, we buy from Rieter, we buy from LMW, we buy from all three. The autoconing equipment we buy from both Slagfast and Morata and combing we buy from LMW and from Rieter, and the preparatory machine we buy from Touchler and LMW and the free spin we buy from Winsor and LMW.
- Bhavin Chedda:** Sir regarding the YOY and quarter-on-quarter growth in realizations I was wondering why the YOY growth was less than quarter-on-quarter because I believe last year the prices were lower because I think you gave yarn prices have grown by...
- Sachit Jain:** Real increase in yarn happened in the last quarter, in the second quarter and the first quarter there was an increase but not as rapid, so for the 9-month period.
- Bhavin Chedda:** Okay, you gave 9-months period because what I thought was in the opening remarks you said...
- Sachit Jain:** Our apologies then, it was for the nine-month period.
- Bhavin Chedda:** Okay, so if I now understand correctly you are saying yarn went up by 43% quarter-on-quarter and first nine months is up 35% YOY and grey fabrics is at 34% quarter-on-quarter first nine months is 24% YOY.



Vardhman Textiles
February 3, 2011

- Sachit Jain:** Yes.
- Bhavin Chedda:** Sir, I missed out on grey fabrics production numbers if you have mentioned in your opening remarks?
- Sachit Jain:** Almost the same. There is a marginal difference. See grey fabric has gone up from 283 lakh meters to 290 lakh meters; it is about 1% improvement in utilization.
- Bhavin Chedda:** And if you can share sales volume of yarn and processed fabric in the quarter, you shared the production volume if you can give us sales volume also?
- Sachit Jain:** See, we do not normally declare separately the sales figure of process fabric, the fabric as a whole we do declare.
- Bhavin Chedda:** So, fabric as a whole if you can give that figure?
- Sachit Jain:** Yes, so yarn sales were 812 Crores for the quarter.
- Bhavin Chedda:** Sir, in volume terms?
- Sachit Jain:** 46, 978 tonnes for yarn in the quarter, fabrics 179 lakh meters.
- Bhavin Chedda:** Sir, my last question regarding this government policy of quota systems on cotton yarn, so is that the company specific quota you have and have you exhausted your quota in first nine months and you have to wait for a new government policy to open up this quota or how is it if you can explain us?
- Sachit Jain:** Earlier there was nothing of quota, nothing of that sort. Then in first of December the government announced that they are stopping registration of cotton as 720 million kg of exports have got registered and 720 million kg was the figure, which was brought about by the Yarn Advisory Board. It was not at that time understood by anybody that the government will put a ceiling to registration after that figure. It came as a surprise to the industry and a time was given of 45 days to complete the export. Now what was registered, some are fraud registrations and some items take little longer time. So what the government is now calculating is from 720 million kg the left quantity, which has actually not got exported and that will go out again in terms of quota availability to all companies.
- Bhavin Chedda:** Okay, because what we read in the article that actually 720 million has yet not been shipped out of India?
- Sachit Jain:** It has not been shipped out and the government is going to release some extra quota after this 720 million kg my March. They should put in stiff penalties for false registrations so that you cannot just corner quota on your own without having orders and LCs in hand.



Vardhman Textiles
February 3, 2011

- Bhavin Chedda:** And if you can share the figure sir, how much company has managed to register for...
- Sachit Jain:** We are in the process of registering now further for the extra release.
- Bhavin Chedda:** Okay, so whatever you have registered you have already exported?
- Sachit Jain:** Yes, all that is all done because that was till 15th of January. Now we are talking of as other information is coming in the government is examining release of extra quota to complete 720 million kg.
- Bhavin Chedda:** Because sir what we understand is when we spoke to lot of guys, there have been registration done by traders, so the manufacturing company like yours also can use the traders registration to export.
- Sachit Jain:** No, that is already completed.
- Bhavin Chedda:** Okay, so that is already completed and only if there is anything else, which is opened up, which is false registration.
- Sachit Jain:** Yes, out of 720, may be about 40 million kg may be not yet exported. So may be around that quantity would come in as fresh quota. We are still calculating it and we are just seeing it may be somewhere between 30-40 million kg.
- Moderator:** Our next question is from the line of Nilesh Doshi from Techno shares; please go ahead.
- Nilesh Doshi:** Sir, thank you for taking my question again. Sir, just extending on this registration issue of exports, how exactly it is done; is it first come first basis or they have a linkage to what capacity you have or anything like that?
- Sachit Jain:** No linkage to capacity, but now they are asking for all kinds of data, what you exported and so on, so we will get clear picture in a few days.
- Rajeev Thapar:** It is something like that last year export like in the year 2009–2010 what was exported by the exporters that will be the minimum application or maximum application they can make but who have not exported anything in the last year they can maintain application for a IEC number basis to 1 lakh kilograms.
- Bhavin Chedda:** So, sir do we mean to say that I think looking at the way the cotton prices are behaving the government would continue to operate with registration systems for exports even going forward?
- Sachit Jain:** Looks likely but they have created a chaos for themselves.



Vardhman Textiles
February 3, 2011

- Bhavin Chedda:** Yes, but probably they will continue because even they want to ensure that the cotton is available for domestic use.
- Sachit Jain:** Yes.
- Bhavin Chedda:** Sir, second is can you just help me to understand what is your outlook on domestic demand at the current cotton prices and the yarn prices?
- Sachit Jain:** See, all said and done, still the cotton prices in India are lower than international prices and cotton yarn prices in India are lower than international prices.
- Bhavin Chedda:** Just about 4%-5% right, as you said?
- Sachit Jain:** In a commodity 4%-5% is huge.
- Bhavin Chedda:** Okay, but then in the fabric I would say 4%-5% of yarn difference would end up being probably something like 2% of 3% increase?
- Sachit Jain:** If the profit margin is 5% then 3% is great, right?
- Bhavin Chedda:** Yes, so that is the point. Will the market be able to absorb this price?
- Sachit Jain:** When the prices are lower than international prices then it is a question of demand and supply at that point in time.
- Bhavin Chedda:** Right, so how is the demand currently panning out at this moment?
- Sachit Jain:** For garmenters clearly they are having some issues in terms of being able to pass on the entire increase, so garmenters are under pressure, but of course fabric companies are okay.
- Bhavin Chedda:** Sir, in that case in a value chain if your end part of the value chain is bleeding or not making money, how the real scene is going to be?
- Sachit Jain:** Question is this is a global phenomenon if it is only in India that customers are bleeding then one has to be very concerned but overall most of the garmenters have already got price increases in garments, they may not be commensurate to what they require but they have got garment price increases.
- Bhavin Chedda:** But then is it really getting absorbed by the common man in our country; I mean what is your view, with the inflation being so high?
- Sachit Jain:** The prices are going up in the domestic market also.
- Bhavin Chedda:** How is the demand sir?



Vardhman Textiles
February 3, 2011

- Sachit Jain:** Demand, we have no problem in demand and again you see please, when you talk to a leader, a leader will never have problems of demand. Leading company will always have issues of margins and which is why it is because the demand is good that our processed fabric utilization have actually gone up from 72% to 90%.
- Bhavin Chedda:** That is correct but sir the question what I am trying to understand is from your end, as a primary sale, yes, it would have gone to a garment manufacturer. Then probably the product would be lying on sales currently because we are now coming for a summer season. The question what I am trying to understand is with such inflation being high and you being really an expert and experienced person in this industry, how do you see that at this new price, will the consumer will be able to absorb and will continue the same demand pattern in textiles as we go forward?
- Sachit Jain:** Now, one as Vardhman we are primarily linked to export markets. So, in terms of export markets still India is the best place to source yarn and fabric from. So, as far as the textile player is concerned Vardhman specifically is not concerned too much whether the Indian garment industry does well or globally it is doing well. As long as there is demand for garment Vardhman will be able to supply yarn and fabric to it. Having said that the future clearly is the domestic markets and domestic markets so far we have not seen any drop in demand.
- Bhavin Chedda:** So we would believe that probably we do not much foresee a concern unless the inflation is...
- Sachit Jain:** Not a concern at this point in time but unfortunately prices are going up everywhere, so customers gradually are beginning to perhaps accept the fact that prices would go up.
- Moderator:** Our next question is from the line of Jay Shah from Reliance Mutual Fund; please go ahead.
- Jay Shah:** Good afternoon sir, I wanted to ask you what was your average fabric realization for nine months?
- Sachit Jain:** For nine months roughly it is about Rs. 100-105 for processed fabrics in that range.
- Bhavin Chedda:** Okay and for yarn, average realization for nine months?
- Sachit Jain:** Average realization was roughly about Rs.200.
- Moderator:** Our next question is from the line of Paras Edenwala from Capital Portfolio Advisors; please go ahead.
- Paras Edenwala:** I think the numbers were absolutely stunning and I am just kind of seeking your guidance in understanding as to what has really triggered off this huge upsurge in demand, is it only the China factor or there is something else as well that is one and second, what is it that can really disturb the apple cart?



Vardhman Textiles
February 3, 2011

- Sachit Jain:** One, clearly there was a fear component also going on because when prices are rising everyone wants to corner that commodity. So the prices rose too rapidly but there is demand in the US, so clearly ultimately whether it is going to China or other places the ultimate demand market, US is one of the big markets. Now the other part is going on is Chinese domestic consumption is continuing to be robust. These are the two real pulls I would say for the consumption. The other part was that most of the channels were empty in the recession of 2008-2009. Now after that recession when people had cut production significantly the markets never got an opportunity to fill up that channels, so channels are still not as full as probably they should be and what can upset the apple cart clearly these are scary prices. So there has to be correction in prices at some stage. Now to give you an idea Pima cotton is now available at \$3 in the current market price where December 2011 future is talking about \$2.20 \$2.30, so if 60-70 cents price reduction is already being factored in by the future markets for Pima cotton. So, everyone is expecting prices will correct, question is whether will it correct in September, August, December, difficult to predict at this point in time unlikely before June and for sure by December. So between June and December at some stage the prices would correct, question is by how much will they correct. Now still the carryover stock has been pretty low, the chances of severe correction seems low at this point in time unless there is a catastrophe overall again in the global economy and if there is any crop failure somewhere then again that correction, which was expected may not happen.
- Paras Edenwala:** And of this upsurge in demand that we are seeing I know it is very difficult to really quantify, but would it be largely, when I say largely almost three-fourth of the incremental demand, is it because of China or US has some contribution of that?
- Sachit Jain:** US and China, both.
- Paras Edenwala:** US is just recovering you know and ...
- Sachit Jain:** (Indiscernible) 40.53.
- Moderator:** Our next question is from the line of Anand Shah from Canara Robeco; please go ahead.
- Anand Shah:** Hi, Sachit, congratulations for nice set of numbers. Just if you can carry us through current debt position including FCCBs that you have not repaid yet and you have almost 700 odd Crores of cash flow in the first nine months, if you can give us some sense of how the debt repayment schedule, the CapEx how much of that, the new CapEx you will require and what would be the surplus cash left for the shareholders?
- Sachit Jain:** Okay, now that 700 is already down to roughly about 350 Crores and repayment is 380 Crores of the FCCB. About 350 Crores of cash today and we have to pay 380 Crores on FECB next week and we have unutilized borrowing capacity for 500 Crores. So we will borrow some to repay the FCCB and we have continued to buy cotton, so we will need some more funds from our unutilized limits, so we will be increasing our borrowing to buy cotton and stock cotton.



Vardhman Textiles
February 3, 2011

- Anand Shah:** Okay, so what is the current debt?
- Sachit Jain:** 27 Crores as of 31st December.
- Anand Shah:** Okay, sure and significant cash flows in the first nine months and even the fourth quarter looks reasonable in terms of depreciation plus profit. Would that be your debtor at very low cost, so there will not be any pre payment of debt for sure, the term loans, so what would be the utilization for this cash?
- Sachit Jain:** We are continuing with our next phase of expansion as I announced little while earlier, so we have got about 1500-1600 Crores worth of expansion coming up in the next two to two-and-a-half years and we are waiting for the TUF's clarifications, we have not taken any long-term loans for those, we are waiting for those TUF's clarification. If they come in, then we will start borrowing.
- Moderator:** Our next question is from the line of Manas Majumdar from SPA Securities; please go ahead.
- Manas Manjumdar:** Sir, just a follow up question from my side. Can you just give me the volume breakup figures for the segment for this quarter as well as for the last quarter on production and sale?
- Jasmeet Gill:** Okay, the production for the yarn quarter December 2010 quarter was 32,550 metric tones and the sales figure for the same quarter was almost 47, 000 tonnes, and for the quarter before that quarter of December 2009 the production was 31,300 tonnes and the sales was 43,470 tonnes. Grey fabric our production was about 290 lakh meters, sales was also similar and the previous quarter was 283 lakh meters was the production and 264 lakh meters was the sales for grey fabrics. For the processed fabric 200 lakh meters was production for this quarter, sales against that was 179 lakh meters and for the previous quarter the production was 160 lakh meters and the sales was 150 lakh meters.
- Sachit Jain:** While we are awaiting further questions let me also inform all the participants that our de-merger process is on of demerging the steel division into a separate company and we are expecting the written orders from the high court shortly, so the steel division will no longer be part of Vardhman Textiles from January 1st for the fourth quarter onwards, which is why we did not do much discussion on steel today.
- Moderator:** Our next question is from the line of Paresh Jain from MNYL, please go ahead.
- Paresh Jain:** Sir, I just wanted to check what is the CapEx that we are thinking in FY 2012 and FY 2013 separately breakup, if you could give that?
- Sachit Jain:** Separate breakup very difficult to give just now, but overall will be about 1500-1600 Crores.
- Paresh Jain:** And the demerger is January 1, 2011 effective, right?



Vardhman Textiles
February 3, 2011

- Sachit Jain:** That is right.
- Moderator:** Our next question is from the line of Bhavin Chedda from Enam Holdings; please go ahead.
- Bhavin Chedda:** Sir, when you give the sales volume figure these are including interdivision transfers right because otherwise yarn sale is not 46,978?
- Sachit Jain:** That is right.
- Bhavin Chedda:** So, outside market will be how much?
- Jasmeet Gill:** Out of the total sales quantity about 25% to 26% would be interunit transfer.
- Bhavin Chedda:** So, 75% is outside sales, which would be roughly 35 odd thousand tonnes for yarn?
- Jasmeet Gill:** Yes.
- Bhavin Chedda:** In the segment wise revenue, there is intersegment revenues of 221 Crores in the quarter so this will be entirely yarn transfer to fabrics?
- Sachit Jain:** Mainly that.
- Rajeev Thapar:** Some power component is also there, but mainly it is yarn only.
- Bhavin Chedda:** So, what I am trying to figure out is that if we try to detect the intersegment figures from your yarn turnover of 812 Crores and try to divide by your merchant sale volume numbers then you are getting much less NSR number?
- Sachit Jain:** No, there is also a figure of waste sale, which is part of this 46,000 tonnes. The interunit is about 27%, 20% is waste sale.
- Bhavin Chedda:** So you are saying out of total turnover of 812 Crores around 20% will be waste sales.
- Sachit Jain:** No, not in terms of sales in terms of tonnage.
- Bhavin Chedda:** So merchant volume numbers how much we should consider, should be around 25,000 odd, the yarn which is sold in outside market, domestic.....
- Sachit Jain:** It is normally about one-third is what we consume internally and two-third is as merchant sales of the production number.
- Bhavin Chedda:** So, production was around 32,550, so you are saying into 65% roughly is the merchant number.
- Sachit Jain:** Approximately.



Vardhman Textiles
February 3, 2011

- Bhavin Chedda:** Which will give like 22,000 odd number.
- Rajeev Thapar:** It is about 24,000 tonnes.
- Bhavin Chedda:** Okay, then we get the yarn realization, which comes to around Rs. 245-250 a kg, which I think is the correct number like.
- Moderator:** Our next question is from the line of Alkesh Jain from UTI Mutual Fund, please go ahead.
- Alkesh Jain:** Sir, can you throw some light on subsidiary performance Vardhman Acrylics thread business?
- Sachit Jain:** Board meetings have not yet happened, which is why we are not sharing consolidated results, so in the next week we should have those but all the subsidiaries are doing reasonably well, so there is no issue on any of the subsidiaries.
- Moderator:** The next question is from the line of Naga Deepika from Capital Markets, please go ahead.
- Naga Deepika:** Congrats on good set of numbers. I just joined the call late, maybe please pardon me if my question is repetitive, kit is on export front. What was the export volume of cotton yarn for this quarter and are we again going for registration to export cotton yarn in this quarter?
- Sachit Jain:** We will be registering for newer quota as and when it comes up.
- Naga Deepika:** My question is what was the export volume?
- Sachit Jain:** I do not have the exact figure with me.
- Naga Deepika:** How was the yarn realization during the quarter? What was it in the corresponding previous quarter?
- Sachit Jain:** It has gone by almost 43%.
- Naga Deepika:** Is it passing on to the fabric also?
- Sachit Jain:** Grey fabric has gone up by 34% and processed fabric has gone up by 24%.
- Naga Deepika:** So, all the price increase in cotton has been further absorbed in the value chain of the textiles?
- Sachit Jain:** Yes.
- Naga Deepika:** One last question if you permit, what would be our cotton procurement strategy this year?
- Sachit Jain:** We normally would complete our cotton buying by March end or mid of April and normally we will have at least six months stock of cotton as of that point of time whether we have exactly six



Vardhman Textiles
February 3, 2011

months or eight months is a decision that is an internal decision and at which point of time in the year we complete our cotton buying is also an internal decision but by March 31st we should have at least six months of stock on the books.

Moderator: As there are no further questions I would like to hand the floor over to the management for closing comments.

Sachit Jain: On behalf of Vardhman Textiles we would like to thank everybody for showing interest in the company and we will continue to strive to perform better but as I shared earlier what the performance of third quarter is not what we expect to be repeated in the immediate future. All the best. Thank you.

Moderator: Thank you. On behalf of IIFL that concludes this conference call. Thank you for joining us and you may now disconnect your lines.