"Vardhman Textiles Conference Call"

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Moderator: Ladies and gentlemen, good afternoon and welcome to the Vardhman Textiles Q3 FY'13 results conference call, 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. Avi Mehta, from IIFL Capital. Thank you and over to you Sir.

Avi Mehta: On behalf of IIFL, I would like to welcome all of you to the Q3 FY'13 conference call for Vardhman Textiles. From the company we have with us Mr. Neeraj Jain, Executive Director and Head of Yarn business, Mr. Rajeev Thapar, CFO, and Ms. Jasmeet Gill, AVP, Corporate Finance and IR. I would now like to hand over the call to the management for their comments.

Rajeev Thapar: On behalf of Vardhman Textiles, I would like to welcome all the participants. This is our conference call for Q3 results of Vardhman Textiles and first of all I would like to introduce Mr. Niraj Jain who is with me right now and also Jasmeet is there. She is our AVP Finance. I would like to discuss our matter before we can just move on to results that recently SEBI has come up with a circular that the company should not share any quantitative data or some other data, which is normally being released to trade circle or some other persons before disclosing it to stock exchanges. So, in that view of matter in this conference call we will just remain qualitative and we will not discuss any quantitative data because as of now we have just released our quarterly results, which are with the public right now. This is my request. Now I will request Jasmeet to just give overview of financial results and then we can move to question and answer session.

Jasmeet Gill: Like Mr. Thapar said that we will only be discussing the published results. Just to quickly take you through the results of the company for the Q3. The sales of the company have shown a growth of 10% quarter-on-quarter with yarn business contributing 9% where the sales have gone up from 827 Crores to 905 Crores in the quarter ended December 2012. Fabric business has shown a 12% growth. Sales have gone up from 320 Crores for the quarter December 2011 to 358 Crores in the quarter December 2012.

The total sales net of intersegment revenue have grown by 10% from 984 Crores to 1083 Crores in the previous quarter. The total EBITDA of the company has risen by 26% from 108 Crores in the quarter ended December 2011 to 226 Crores in the quarter ended December 2012. There is also a slight increase from the previous quarter, immediately previous quarter, which was September 2012, the EBITDA was 204 Crores and it has increased to 226 Crores in the quarter we are discussing. The EBIT in the yarn business has increased by 32%. This is a growth from 82 Crores in the quarter ended December 2011 to 213 Crores in the December 2012 quarter. Fabric business has shown a slight increase from 38 Crores to 43 Crores. The total EBIT has gone up by 18% from 126 Crores to 166 Crores.

The capital employed in the yarn business has again increased. There is some ongoing Capex happening in the yarn business and the capacities will be added in the next financial year. The capital employed in yarn business has gone up from 2299 Crores to 2637 Crores and the capital employed of the fabric business has increased from 930 Crores to 1113 Crores. The total capital employed of the company has increased by about 8% from 4679 Crores to 5076 Crores. That is broadly the financial numbers. We would now like to throw open the floor for questions. Since we would not be sharing any quantitative data this time, so overview of yarn business which has shown a decent growth especially in the EBIT and EBITDA although the topline has grown by only 9%, I would like to now turnover the discussion to Mr. Niraj Jain, the head of the yarn business and Executive Director for Vardhman Textiles.

Niraj Jain: This period has been quite good for the yarn business not only for Vardhman, but I think country as a whole. The major reason for the same has been primarily disparity in the prices of cotton in China versus India. As most of you would be aware the prices in China, because of the government policy raw cotton is almost like 120 cents per pound or so whereas in India it has been ranging between 80 cents to 85 cents. So clearly giving us an advantage as a result of the same any spinner in China will be including their convergent cost it will not be possible for them to compete to the other countries like India, Indonesia, Vietnam and Pakistan and to that extent China has been importing lots of yarns.

If we go by the numbers it has been one of the highest in China, similarly almost 100 million kg of yarn is being exported to various countries from India as against the last year's average of 70-75. So there is a tremendous growth, which is one reason is this. Second, to some extent even the rupee has helped now with the stability to Rs.53 to Rs.55, so to some extent the revivality on the Indian Textile Spinning and the other textile product is a little better. Third will be whether this is likely to be sustainable or this is going to be a question. I think it is still anyone's guess but there could be two views one, if China starts releasing the cotton at a very much prices to their spinners then probably the kind of advantage, which the Indian Spinning or the Pakistani Spinning companies have may not be available, but it seems a little difficult as of now because they have not done this nor there could be a possibility that they may try it out than reducing their cotton prices they may try to influence the world prices of cotton going forward and keep on buying till the time it moves from 80 to 85 cents to $1 or so, so that the relative disadvantage to the Chinese spinner comes down a little bit. That could be one possibility.

Second is considering their convergent cost both on the power and on the manpower, it is going to be a big challenge. It is a challenge for all the countries, but it is going to be a big challenge for the Chinese companies to continue to spin the relatively non-value added yarns especially the course accounts and to that extent there could be a possibility that both India and Pakistan has a great opportunity going forward where they keep on spinning the yarn and keep on exporting to China and China is busy even more on the value added products or more on the government results. So these are the two or three ifs and buts as of now. There is no clear clarity as of now whether it is going to be sustained or how it is likely to happen, but it seems on the cost factor definitely and with the Yuan appreciating over a period of time, there could be a possibility that slowly the Indian spinners get an advantage compared to them, which they have been getting and this could be sustained to some extent.

Personally, I do not expect the cotton prices gap to continue like this for the next few years, maybe it could be another few months but second advantage of sustainability which looks more possible maybe by way of the convergent cost, which is increasing in their cost and our convergent cost, which is also increasing, but still may be relatively better compared to the Chinese spinners. That is on the yarn side.

The second factor would be on the raw cotton side. This year we are talking of a total crop size of maybe close to about 26 million tonnes, which the consumption is not likely to be more than 23.5 million tonnes, so in that way it is going to be addition of about 2 million tonnes in the systems. There are some latest reports, which have started coming in for the plantation and expectation for the next year and they are likely that there is a reduction in the overall area under cotton in China, USA and some other countries also and there is a possibility because these crop clearly competes with other crops like eatables, or soya bean etc., and this price probably wherein lots of intentions where the cotton harvesting can come down. If that happens surely the prices are likely to increase after seven or eight months and there could be a possibility that India and the other prices also and, second is if the cotton crop comes down to let us say 23 million to let us say 24 and 24.5 million tonnes so there is a more possibility that a better alignment happens in both production and the consumption of cotton, which is a little different as of now considering the net addition of about 2 to 2.5 million tonnes which is happening in the system. So that is on the cotton side. Now I will request anyone who has a question can ask, so that we can be in a position to answer. Thank you.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin with the question and answer session. We have the first question is from the line of Aditya Vikram Gupta from CD Equisearch Private Limited. Please go ahead.

Aditya Vikram Gupta: Sir, my first question is apart from the Capex that was completed in this quarter is there any other Capex lying in the company?

Rajeev Thapar: There are a few projects, which are going on as of now. Let us say on the spinning side, we are adding another about 120,000 spindles which will be fully commissioned, maybe my expectation is most of it will be available to us by September or October or may be by December. I expect these 120,000 spindles to be available. So the impact of the same will be available in the next financial year, full impact. Partially it will start coming in this year, but the full impact will be there in the next financial year 2014-15. At the moment the number we will complete that and the full impact will be there in 2014-15, maybe the partial will start coming in from June onwards.

Aditya Vikram Gupta: So, there is only one project on the spinning side, right?

Rajeev Thapar: Almost 60000 spindles each, so the total is 120000 spindles.

Aditya Vikram Gupta: Okay this is the only Capex lying here?

Rajeev Thapar: In addition to that we are adding some looms also. The total project was 430 looms, out of which close to about 200 looms were already installed, remaining 200 are expected maybe next few months, and again quarter starting September onwards the full impact of the same will also be available.

Aditya Vikram Gupta: These are the two projects Sir.

Rajeev Thapar: This time balancing and the processing, which was started last month, again as more and more weaving will be available this line will also be fully operational by that time.

Aditya Vikram Gupta: What is the impact in value terms? I think the cost of these projects?

Rajeev Thapar: Total Capex we are talking of close to about 1000 Crores all these projects taken together.

Aditya Vikram Gupta: The second question would be why has the company resisted from disclosing the open derivative position?

Rajeev Thapar: Balance sheet data was there for open position.

Aditya Vikram Gupta: If I read your notes to accounts Sir, the first point you have given Sir. If we do not take gain or loss of Forex transaction into account apart from that what is the open derivative position?

Rajeev Thapar: Are you talking of dollar terms?

Aditya Vikram Gupta: Basically the Forex exposure?

Rajeev Thapar: These are already in March balance sheet. Quarter-on-quarter of course we are not disclosing it forever, but in annual balance sheet data was always there.

Aditya Vikram Gupta: I can find in the annual report, basically I was talking for this quarter and the nine months Sir?

Rajeev Thapar: It is now part of our quarterly results, so almost in the same lines. You can consider it in the same range.

Aditya Vikram Gupta: At what rate is this hedged?

Jasmeet Gill: Actually like Mr. Thapar said, we cannot disclose anything, which is not part of information with the stock exchange. So this is something that is not filed with stock exchanges we cannot disclose it.

Aditya Vikram Gupta: Are you planning to file this data with the stock exchange, basically the hedging policies of the company?

Jasmeet Gill: We will be discussing with the top management before we decide what is to be disclosed to the stock exchange and what is not to be disclosed.

Moderator: Thank you. The next question is from the line of Abhijeet Dey from BNP Paribas. Please go ahead.

Abhijeet Dey: Just wanted to know if you can give some percentage terms what is the growth in yarn sales volumes, grey fabric as well as processed fabrics?

Niraj Jain: Let us say in terms of the capacity these 120000 spindles likely are to be about 14% or 15% of the company's capacity in yarn.

Abhijeet Dey: I was talking about the Q3 FY'13?

Rajeev Thapar: Again, the problem is that if we give the volume data for the last quarter is already with the participants, and we say that 10% is increased or 15% is increased then of course that can be converted in quantitative terms, which again amounts to the same thing. So actually we are going to take an internal view what kind of information we have to disclose to the stock exchanges.

Abhijeet Dey: Sir, if you can give us an indication in terms of yarn and fabric realization for this quarter on a QOQ and YOY basis?

Rajeev Thapar: I will not be in a position to give you the realization specifically for the company, but I can give you the range how the Indian yarn has been behaving in this part. Most of the December quarter prices were ranging between $3.50 cents to about $3.75 cents in terms of we are talking of the Hong Kong delivered 30s count benchmark price. By and large the prices were like this and as of now there has been a slight improvement off late maybe about 5 cents or 10 cents but this is the range where most of the industry has been operating in and the domestic markets are clearly converted based on the export market whatever is the dollar prices for that.

Abhijeet Dey: In terms of fabric if you can throw some light on that? We also saw a sharp improvement in the margins in the fabric business, so we just wanted to get a sense what is this lead by, is it lead by a product mix or improvement in the realization for the fabric on industry wise rather than for Vardhman?

Rajeev Thapar: As on both the sides, there were a little margin also improved and there is also some conversion happened from the basic products to the value added products, so I am not speaking only in terms of the prices, I think, yes, there is definitely some improvement happened because the market is much more stable. As such as a country the demand for the grey fabric and the processed fabric is increasing especially on the basic products where the China was a little uncompetitive so there is lot of imports on the fabric in Bangladesh and the other countries, but there the Indian manufacturers could include the prices also and in addition to that they could get some better value added products also.

Moderator: Thank you. The next question is from the line of Ranjeet Sivaram from B&K Securities. Please go ahead.

Ranjeet Sivaram: Sir, just reiterating on the previous question, this $3.55 if it is per tonne realization rate if I am correct?

Rajeev Thapar: $3.55 per kg of 30s count yarn.

Ranjeet Sivaram: Per Kg, and Sir, can you just give an idea like how this has moved sequentially and on an annual basis?

Rajeev Thapar: Let us forget the four to five months in the starting of the calendar year last year because that was an abruption where the prices were much, much higher so, beyond let us say June-July these prices have been moving between $3.50 cents and $3.80 cents only. Because last year the prices went as high as $7 or so, which was really an abruption because the cotton prices also increased to $2.20 cents those days, but if you look at the historic data most of the time this price range was $3.20 cents to $3.50 cents which now has moved because of the cost and the other factor from $3.50 cents to about $3.80 cents as of now.

Ranjeet Sivaram: If I understood correctly like in a sequential basis like previously it was around $3.2 to $3.5 and now because of the cost and other increase it has gone to around $3.5 to $3.7?

Rajeev Thapar: $3.5 also, I am talking about two and a half years or three years back because in between there was one year which was absolutely different from any averages and so we generally consider not that to be a normal period. So I will leave that, so earlier the price range, which used to be about $3.33 or $3.40 now in general has moved to about $3.50 to $3.80.

Ranjeet Sivaram: How about the cotton prices so that we will get an idea?

Rajeev Thapar: Cotton prices earlier have always been ranging between 60 and 70 cents per pound, which now people are talking of 80 to 87, 88 or 90 cents per pound.

Ranjeet Sivaram: So this has moved higher in the recent?

Rajeev Thapar: In terms of the margin by and large comparable, but yes, if you are talking of margin as a percentage to sales maybe either same or a little lower.

Ranjeet Sivaram: What is your view going forward this will normalize in these levels or you are expecting it to move higher or lower? What is the idea you get?

Rajeev Thapar: Only one factor, which is still not know as I mentioned earlier is also is the policy of cotton for the Chinese countries in China. So, unless they clear the card how they are going to behave in future because if they continue and they already have a huge amount of cotton available to them almost 7 to 7.5 million tonnes, which is almost at one year consumption. If they try to sell it out they decide to sell it today it can crash the market, but it seems they are not willing to do the same. Second are the local spinners have a disadvantage today because they get cotton at a much costlier cost compared to any part of the world as of now. Third policy could be okay, whatever is the surplus cotton available in the world keep on buying the same and make sure that the world prices to 80 and 90 cents can it go to $1, so it is anyone’s guess but my belief is maybe they will look at the third policy where we are saying today’s gap is as high as 40% Chinese spinner and Indian spinner, why do not we reduce it to about 20% so where they can compete or to that extent there is relatively less disadvantage to the Chinese spinner. That could be one possibility. I am not very sure how they behave. If they do not interfere in the market then the prices can be in this range only what the cotton is showing today.

Ranjeet Sivaram: In case if they interfere then there can be a possibility of the price coming down? There is a possibility for the realization to come down?

Rajeev Thapar: It will be linked to the cotton only, so generally the spinning mill will always be looking at the spread available over cotton. So they are not really concerned if the cotton goes up or down. So we generally look at if the yarn prices moves along with that our margins become stable that is what most of the spinning mills will be working at. So, whether the price of the cotton is 80 cents or 90 cents or $1 so in the same line if the yarn prices keep on moving and the spread is available I do not think then there should be any issue to any spinning mills.

Ranjeet Sivaram: Lastly likely we get to hear lots of spinning mills based out of Tamil Nadu is facing problem because of power shortage, so just to get an understanding like are we an advantageous position because there cost is higher and we are able to sell more and if it is true, then how long you expect this to last?

Rajeev Thapar: For sure this is an advantage today to the central and the north Indian mills because over there they are talking of almost like 10-12 hours of power not available or if available at a very, very high cost, which they are generating through the diesel or the furnace oil, which is a killing cost today for any spinning mill. Their utilizations are lower or they could not make money, so there capacity to expand also was coming down. North Indian mills they had the advantage last one to one and a half years, both north and central India or wherever the secured shortage of power is not there, so there is lots of expansions happening on these companies. As of now there is an advantage but you are right it cannot be available for the whole of the life, but I think by that time, there will be many mills which are considering or which are putting up new projects either in Madhya Pradesh or in Maharashtra or in Gujarat incentivized by the new policies, which the government has given, so again which is going to create an added advantage or a competitive advantage to those mills who will be putting up the capacities over there.

Ranjeet Sivaram: So, you mean to say that this kind of cost differential can be beneficial to the north Indian mills?

Rajeev Thapar: It is beneficial as of now because we are running at full capacity and margins have improved, so the most of the mills capacity to expand further is also there, because we are making money and we are more confident whereas the South Indian mills unfortunately because of the power situation today are suffering a lot.

Ranjeet Sivaram: Lastly, the recent incentives which Gujarat and Maharashtra announced in a ground reality basis how much time will you expect that to realize into extra capacity additions? Will it be a year, two years from here or will it be more from that?

Rajeev Thapar: Any spinning mill from the scratch to the production takes a minimum of one year if we are ready. Now in addition to that we require time for your funding, we will require time to get approvals on TUFS etc. Third, these areas most of the people may not have the land available to them readily so people will have to buy land also, which is both cost and the time consuming things as of now. So maybe it may take about two to two and a half years and then the delivery of the machines will also slowly become an issue because in India at best all the three manufacturers of spinning mill can deliver about 3.5 million or 4 million spindles in a year. So, my belief it is going to take at least two to three years by the time the full capacity is over there, comes in what the government is trying to find out. It will start coming in year or year and a half down the line but more and more expansions will come maybe three years from today.

Ranjeet Sivaram: Do you see people as a risk because if spinning mill is largely monotonous business, so in that do you expect people risk associated with this? In terms of in largely south Indian based mills they have not faced any people in terms of employees moving. So we also get to know there is a risk in terms of when a mill is moved from North Indian capacity comes in. So, do you face problems in terms of hiring people?

Rajeev Thapar: It is a challenge not only for spinning. it is a challenge for India as a whole and any developing country where you are talking of 6% to 8% growth this challenge will always be there because the pipeline will take some time by the time it settles down, but at the same time, there are many organizations in the country, which are taking initiative and they are taking fresh and fresh people and all those things are going on so, I do not think there is going to be a situation where suddenly we will feel we have so much and as a country where we feel we have so much of capacities created but we do not have technicians to run it. I do not think, because one, the technology which is coming in, the new and new require relatively less number of employees so to that extent it is far better technology because we are talking of today plants which are almost comparable to the Europe or to the American capacities. Second, I think the initiative, which all the mills have taken and the new pipeline which is coming in there could be a short and different share there, but by and large, I think should not be that big an issue that you do not have people to run the factories. There are bigger challenges to get the worker rather than the managerial positions as of now. Thanks to one or the other business.

Moderator: Thank you. The next question is from the line of Dhvani Modi from ICICI Direct. Please go ahead.

Dhvani Modi: This is just a follow up question with regards to the Capex plans? Maybe what we discussed earlier on the call this is something that we are planning just over this year of FY'14, some of it definitely going into FY'14. I just wanted to know post this is we looking at any Capex?

Rajeev Thapar: No, as of now there is no firm plan, but at the same time, as a company we are evaluating various options. We have not taken a final call as of now, but yes there are lots of incentives being given by the government as an organization we are trying to look at what more could be done but this is what which is firmed as of now, so there is nothing as of now which can be shared. Definitely these incentives are available companies will require what more could be done.

Dhvani Modi: Sir, another thing I wanted to check, with more added capacities coming in to play we are seeing that the share of the fabric business and the overall mix is slightly moving upwards. I just wanted to understand where do we see this mix settling in? Are we consciously increasing the fabric share and if yes what is the product mix that you foresee going forward?

Rajeev Thapar: If you look at the total yarn, generally fabric is about one-third of the yarn goes for the internal Capex and going forward also I personally do not look at a major change to happen in this because let us say we are adding 120,000 spindles so maybe the fabric one-third of this will also take care of whatever fabric expansion is happening. Overall basis there is no particular shift which is likely to happen more in favor of A, or the B business but my belief both the business will be growing and the percentage which is available today there could be a gap or difference of 1% or 2% here and there.

Dhvani Modi: Broadly it will remain at these levels?

Rajeev Thapar: At these levels only, 1%, 2%, 3% here and there can still be possible.

Dhvani Modi: I just want to know of this 1000 Crores plus topline that we have done during this quarter how much has come from exports?

Rajeev Thapar: Again, I do not have a number readily, but I can tell you as a business generally one-third of our business goes for the inter unit and out of the remaining capacities will be close to about 50% to 60% of the domestic sale and about 40% to 50% generally will be the export sales of yarn.

Dhvani Modi: Basically what I am trying to understand from this question is what is the kind of export demand that we are seeing because somewhere we also get to read that the demands especially from the larger countries is kind of weakening. So, just wanted to get a sense of how our export business is performing and how is the demand scenario to countries that we export?

Rajeev Thapar: In this perspective there are lots of demand, which is available from the data released by the tax proceeds where the monthly registration is almost for the last three months 100 million kg or so. So that is from the country side, but in terms of whatever is our ratio till last year by and large they are still on to the debt ratio is not likely to be any major shift for us though there is a possibility that more export demand is there, but at the same time we have a fairly good, very good garment exporters from India also who are ultimately buying yarns from us or fabric yarn and then converting and exporting the garments. So most of our segment is turned to that, so I do not think there is likely to be any major change on Vardhman's product in favor of direct export to domestic market, by and large the share remains same what was there last year.

Dhvani Modi: Couple of years ago, we have initiated a very small project on the garment side, just wanted you to share some more information with regard to that and how it is taking shape?

Rajeev Thapar: We have added this capacity about a year and year and a half back and now there are two to three challenges. One is it is a new business where there is a lots of learning curve is there. Second it is a business where are going to compete with many of the unorganized or the small scale players and third it is a joint venture with a Japanese company where their expectation of their expertise and the quality of product is absolutely different. So, just to share that in terms of the learning curve we have started feeling, it is time where we are ready for the take off, learning curve is over. Two, in terms of the product acceptability, it is better. Third, the cost of manufacturing for us is much higher compared to the competitors because of very small site we had and some future investments, which we had done for the expansion of the business. Now we are adding on to those machines, because the building etc., was already ready, so we are adding to those machines. It is better. So my belief going forward in the next one to one and a half years the business should be positive. Just to give you an idea as of now we are not breaking even on the business but definitely because it was clearly first one or two years was a hit, which is the four of the subsidiary learning curve, but month-after-month the business is improving and I hope by the next two months, we will be far better than what we were.

Moderator: Thank you. The next question is from the line of Avinash Nahata from Aditya Birla Money. Please go ahead.

Avinash Nahata: Just want your comments on your net working movement?

Rajeev Thapar: Cotton season has just started a few months back; now in this period we are definitely having a major utilization of working capital. So what is your exact query, I can just answer that.

Avinash Nahata: How is it stacked in terms of last year same period because you have been buying cotton the last year same time also, so how is that on a YOY basis what would be your networking capital?

Rajeev Thapar: Hope that it will remain in the same range, because if we just compare it with the March end last year and this year-end of March, it will remain at the same level.

Avinash Nahata: There is no difference. The debtors also would be more or less the same?

Rajeev Thapar: In terms of number of days because there are two factors, one is the absolute amount since the capacities are increasing, so we generally measure it in terms of the number of days.

Avinash Nahata: Yes, number of days only?

Rajeev Thapar: There should not be a big change.

Avinash Nahata: What is our net debt position?

Rajeev Thapar: Net debt actually if you see the September data there was appearing a long-term debt and short-term debt so because separately we would not like to share that figure of short-term debt, it will be in the same range only, not much variation there.

Moderator: Thank you. Mr. Mehta would you like to ask questions while we questions from participants. Please go ahead.

Avi Mehta: Sir, I just had three bits of questions. One is what we have seen, I am just trying comparing what has happened in the first half to what has happened in this quarter and if I see the yarn business there is definitely a very sharp improvement in terms of the revenue growth. While, I understand you cannot share in terms of quantity, qualitatively suggest what has driven this growth? Was there volume growth in the first half as well, which has continued and is it the price that has changed, if you could give us some sense over there?

Rajeev Thapar: There was some volume growth in the first half, because there were some few projects, which were implemented last year when the full production started happening in this period, so definitely there is an improvement in terms of the volume also and second is in terms of margin improvement so both the things have contributed to that extent.

Avi Mehta: So, it is basically first half there was volume growth that has continued in the third quarter. What has probably changed is the realization in YOY basis has also contributed to the growth?

Rajeev Thapar: That is right.

Avi Mehta: In terms of Capex plans, you said 1000 Crores. That is the number of FY'14 completely or have you already done some part of it already?

Rajeev Thapar: The work is already going on so my belief…

Avi Mehta: Basically FY'14 Capex plan if you can share or if you have made any change?

Jasmeet Gill: FY'14 is 1000 Crores and that is the major part of the Capex for all the expansion that we are planning will happen in the next financial year FY'14. Some part has already happened in FY'13, which was around 500 Crores.

Avi Mehta: So, it is 1000 Crores for FY'14 totally, right?

Jasmeet Gill: Roughly 1000. It will be slightly less than 1000.

Avi Mehta: Lastly, just on the industry sector, we saw the USD report that did come out yesterday, just trying to understand, as you rightly said that China is the key joker in the pack, but how have spreads moved given the fact that a) is it a short-term thing that you see or do you see this situation continuing given the way China has been behaving and the current estimates. I am just trying to understand that sense?

Rajeev Thapar: It is very difficult for us to comment upon a country's policy because nobody of us can really tell, but considering the way they have handled it today, it is the belief of our company right or wrong that this may continue or maybe at least will not change immediately and maybe over a period of time, the gap which is available today are almost 40% in their cotton prices and our cotton prices may come down to maybe 15% to 20%. Now that is purely our belief or our feeling but again it is very, very difficult for us to comment on any country's policy. So not very sure how things will pan out.

Avi Mehta: Sir, is there any import duty that China levies or is there anything?

Rajeev Thapar: They have different policies. One is we have a quota which is called a sliding quota where they start giving the quota to their spinners, let us say the first almost about 900000 tonnes come at a 1% duty and then they keep on increasing but in case you do not have the quota in that scenario you will have to pay a 40% duty on raw cotton so that is how the Indian prices generally will be decided. You will have 84 cents, 85 cents cotton over there, you add 40% to that it will come to about $1.20 cents, which is their local price. If they keep on giving more and more quota probably to that extent the cost of spinners in China will be in between 80 cents to 120 cents. For example they have given this 894000 tonnes of quota at 1%, which they are already importing and then if they do not release further quota in that scenario they have to import only on the OGL, which is at 40% import.

Avi Mehta: Correct me if my understanding is incorrect that basically the local guys currently get about 120, which is the differential and depending on the quota systems if that were to increase that differential would come under stress for the Chinese?

Rajeev Thapar: So maybe let us say someone gets at a 1% quota so he will buy some cotton under the quota and some he will buy local so his blended cost will be lower than 120 cents but again will be substantially higher than an Indian or a Pakistani mill.

Avi Mehta: Just on a historic basis, what has happened on the spreads is if I look at obviously spreads have been improving, which is currently at the same levels, on the industry wise, the yarn spreads?

Rajeev Thapar: Generally industry wise we have always been talking of a spread of $1 over quarter-on-quarter in India, and of course it was earlier it was 80 or 90 cents but the cost increase the historically it may be about $1 where we will start looking at a zero EBITDA kind of a level, 90 cents or so, which as of now is definitely improved to about $1.30 cents or $1.40 cents on an industry basis and that is where you are finding Indian mills or the Pakistani mills making more money.

Avi Mehta: This was the level in the last quarter as well, and it is currently at the same level or has it improved? I just wanted to get that?

Rajeev Thapar: It is at the almost same level. There is not much of change happened between the last quarter and as of now in terms of spreads.

Moderator: Thank you. The next question is from the line of Nilesh Doshi from Techno Shares. Please go ahead.

Nilesh Doshi: Can you share what is your view on the domestic demand of textiles?

Rajeev Thapar: Domestic demand there has been some increase happened, but if you look at the garment exports from India that is stagnant one or the other reasons whether our cost of convergent of garmenting or the labor policy whatever is the reason, but there is not much of export of garmenting increase which is happening from India. So, second is the domestic demand is increasing by about I will say 4% to 7%, but the spinning advantage more as of now is on account of the export, but definitely there is some improvement, 6% to 7% happened in the domestic deliveries and that is what it is.

Nilesh Doshi: Sir, is that increase is happening in the low cost items like lower priced range products or it is across?

Rajeev Thapar: When we are talking of the domestic consumptions again we are talking of the way yarn business looks at it for any spinner in India, one is the direct export of yarn, second is the domestic delivery, which will include the yarn consumption for the export of garment also.

Nilesh Doshi: Sir, we have been talking about some Chinese policy. I have been listening to that. What is the exact policy, which is creating this differential?

Rajeev Thapar: They say the local price, which is available to a cotton farmer is let us say $1.20 cents so that is the minimum support price what we have in India, so if the government says the mills are supposed to buy at $1.19 or $1.20 cents for they have calculated in Yuan, which we convert into the US cents there is 120 cents is the price of cotton, in which any spinning mill can buy from the farmers.

Nilesh Doshi: Their MSP in terms of Yuan over the last few years remain same or might have slightly increased?

Rajeev Thapar: Last year I think they have increased it by 3 or 4 US cents so, last year I think it was before that was 116 or 117, which as of now is close to about 120. So this is the MSP. Generally the MSP operation in India and China are at a little different in India if the MSP happens. They will buy farmers from farmer at the MSP and any of the let us say the Cotton Corporation of India they will buy and sell it to the mills at an international or domestic parity whereas in China they are buying the cotton at MSP and they say we will not sell it lower than this price so the government has decided it to hold it down. Some of the government is holding almost like 7 to 7.5 million tonnes of cotton today. If the spinner is not willing to pay that price, we will hold that stock for us.

Nilesh Doshi: But then are the mills in China are allowed to buy cotton directly from farmers? Like in India we have traders and we have a direct trade also?

Niraj Jain: That is true but at the same time, the Chinese numbers are as such not available on a detailed basis, but at the same time, our belief is considering that China at one point of time was consuming 9.5 million tonnes of cotton, which this year they are estimating 7.5 or 7.6 million tonnes. So surely the mills over there that were running on 100% cotton are not running. That is one. Two, the demand of yarn in China from India and Pakistan is clearly showing there are lots of imported yarns is happening.

Nilesh Doshi: Is it like 9 million to 7.5 million tonnes, which has also happened, could be because of lot of exports of garments taking place from Bangladesh to the European economies?

Rajeev Thapar: Chinese number of garment export is not coming down. They are still showing a growth of 7% to 10% year-on-year.

Nilesh Doshi: The export number is also growing?

Rajeev Thapar: Sure.

Nilesh Doshi: The second point, which you said is about cotton price difference. Is it also because that they calculate the cotton MSP in Yuan and Yuan versus Dollar and Rupee versus Dollar has moved in a different way?

Rajeev Thapar: But whenever we look at we convert their Yuan into US cents and we convert our Rupee to US cents. Whenever we are talking of any international competitors is always US cent to US cent. Whatever has happened to my rupee or their Yuan we have already discounted.

Nilesh Doshi: Is that the one of the reasons that is showing so much of a differential, the currency movement?

Rajeev Thapar: To some extent, but not to the full extent, because their country currency has appreciated let say in the last one-year from 6.402 to about 6.25 or so or 7 or so. Rupee maybe 8% or 10% but still in terms of Yuan they have increased their MSP last year by 600 or 700 Yuan, so to that extent it is not really the currency, but it is the policy of the government that we want to give this much. Because they have a pressure of the possibility of conversion because if we do not give this kind of MSP to the cotton farmer probably the cotton crop in China will come down drastically lower because people will just want to more of the vegetables or the soya beans or the other products which can given them a better remuneration.

Nilesh Doshi: They may have to then resort to larger imports?

Rajeev Thapar: Yes.

Moderator: Thank you. Mr. Mehta would you like to go ahead with your followup question?

Avi Mehta: Just wanted to have another sense from you on the industry wide, if I were to look at a five-year or a longer-term kind of a history, and just trying to get a relationship between the cotton price and the spread. Is it fair to assume that if cotton prices are to remain peak or remain flattish at levels, spreads kind of improve the uses kind of some analysis that you could share with us?

Rajeev Thapar: This industry last five years has shown all the three trends; whenever cotton has increased yarn has increased. There was a time when the cotton was flat, yarn was flat and there has been a time where the cotton had increased and the yarn has come down, so per se there is no particular trend which is available in the last four or five years, but yes, in general the cotton yarn prices will move in tandem with the cotton so that the spinner keeps on getting that spread if he is not getting India has a large capacity of spinning 40 to 42 million spindles, so some of the spinners who are not making money will keep on reducing their capacity, so again the demand and supply will improve over a period of time. So per se whenever the cotton increases, normally the yarn would increase.

Avi Mehta: So, per se, you are saying that the spreads are in the worst…?

Rajeev Thapar: By and large most of the industry will look at this spreads rather than looking at the cotton yarn price as such.

Avi Mehta: So spreads how would have they behaved if you could share that?

Rajeev Thapar: As I said in one of the earlier question, the spreads earlier used to be 80 or 85 cents, which takes care of the conversion cost for the country, which has of now improved to $1.20 cents to $1.40 cents.

Avi Mehta: So, there is an improvement and it remains at the current levels?

Moderator: Thank you. The next question is from the line of Pratik Poddar from ICICI Prudential. Please go ahead.

Pratik Poddar: Just wanted to understand the spread as a percentage of cotton or it is fixed spread?

Rajeev Thapar: When we are talking of $1.20 cents or $1.40 cents we are talking of a fixed amount per kg.

Pratik Poddar: This is a fixed spread?

Rajeev Thapar: We are talking of spreads generally calculated or discussed in terms of spread per kg.

Moderator: Thank you. As there are no further questions, I would like to hand the floor back to Mr. Mehta for closing comments. Please go ahead Sir.

Avi Mehta: Thanks every one for attending. I would like to hand the floor over to the management for their closing comments.

Rajeev Thapar: I would like to thank all the participants who have participated in this conference call. Look forward for the next quarterly results in the month of May sometime. Thank you everybody.

Moderator: Thank you gentlemen of the management and Mr. Mehta. Ladies and gentlemen on behalf of IIFL Capital that concludes this conference call. Thank you for joining us.