



“Vardhman Textiles Q3 FY-16 Results Conference Call”

January 27, 2016



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MODERATOR: **MR. AVI MEHTA – IIFL**



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Moderator: Ladies and gentlemen, good day and welcome to the Vardhman Textiles Q3 FY16 Results Conference Call hosted by IIFL. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing a '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Avi Mehta from IIFL. Thank you and over to you sir.

Avi Mehta: Thank you Margaret. Hi, good evening everyone. On behalf of IIFL I would like to welcome all of you to the 3Q FY16 Conference Call for Vardhman Textiles. From the company we have with us the key senior management including Mr. Sachit Jain and Mr. Neeraj Jain – Joint MD. Neeraj Jain is the Joint MD of The yarn division, Mr. Rajeev Thapar – CFO, Mr. I J Dhuria – Director (Raw Materials) and Mr. Akshay Jain – IR. I would now like to hand over the call to the management for their comments. Over to you sir.

Sachit Jain: Thank you Avi. Ladies & gentlemen, thank you once again for coming in for our call. As you would have seen our numbers, our EBITDA margins came in around 20% which is what we have guiding that it will be in the range of 18% to 22%. And currently we are facing major headwinds in the industry but we still feel that we will be able to continue and over the next 2-3 quarters we should be in the similar ballpark within our range of 18% to 22% we should be able to maintain numbers. Prices have been falling which is why you have seen that there is hardly any change in sales top-line and we do not have any capacity increase coming in. The only capacity increase that is coming in is going to be our printed fabric line which is going to come into trial production from first quarter of next financial year. It will take 3 to 6 months to stabilize to you would really see some impact of that in the last quarter in the next financial year. Apart from that any other improvement you are seeing is because of what we have been talking about consolidation that companies in consolidation phase, which is going on till March 2017. This consolidation has led to improvement in operations, so our costs have been controlled and we have been able to squeeze productivity, still more productivity from some of the assets. So overall our yarn production is marginally higher than last year same quarter. Fabric utilizations have also been better. So this is what for opening comments. I will move to Akshay and Thapar. I am actually in Delhi so I am from a mobile, so I may get disconnected and they will connect me back. So over to Thapar and Akshay to take them through the numbers and after that we will answer those questions. And then I will ask Mr. Dhuria to talk about little bit on the cotton outlook and then questions.

Rajeev Thapar: Key figures – our total income was about a percent and a half lower last quarter at about 44 million crores. Our EBITDA margins were of the order of 20% as already iterated before. Our total EBITDA was Rs. 288 crores and our reported PAT for this quarter was Rs. 128 crores. This is on standalone basis. On consolidated numbers, our EBITDA percentage is 20.4% which is higher by about 4% over last year, about 1% higher than last quarter. Our PAT reported on a consolidated basis was Rs. 162.9 crores for this quarter vis-à-vis Rs. 137 crores



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for last quarter which is a change of 24%. At a quantitative level our yarn production was 50,728 metric tons vis-à-vis 51,866 metric tons. Our sales including internal transfers was 52,785 metric tons vis-à-vis 51,360 metric tons in last quarter. Grey fabric production was 440 lakh meters this quarter over 408 lakh meters last quarter. This was 458 lakh meters. This includes internal transfers vis-à-vis 402 lakh meters last quarter. Processed fabric too saw an increase to a production of 303 lakh meters this quarter and a sales of 298 lakh meters this quarter over last quarter 271 lakh meters and 262 lakh meters. this is an outlook on our cotton.

I J Dhuria:

If we talk about the global scenario of cotton this is the year after a last 5-year, the cotton season the globe has added more than 12 million tons of cotton. Out of this major stock has been added in China, which is about 10 million tons, in rest of the world it is 2 million ton. But this is first year after 5 years when the globe production is less than the consumption. Although with the global economic going down the cotton consumption has also gone down. I doubt that whether the global cotton consumption will be more or less same as that of the last year. There will not be any growth. But the difference between the production and consumption will be close to 2 million tons and major reduction in stock will be taking place in China, which will be about 0.8 to 0.9 million ton and balance will be in the rest of the world.

As far as the Indian situation is concerned in the last CAB meeting the estimate for the 2015-16 was 36.5 million Indian bales of 170 kg against last year of 38 million bales, but we estimate that since now the CAB is due on 2nd February we estimate the crop production will be less than 35 million bales. And Indian cotton being the lowest quoted in the international market at the moment with the dollar rupee relationship and the cotton is getting out of the country an almost about 4.2 to 4.3 million bales are already exported out of the country and we feel that looking to the consumption scenario the country will be short of cotton and there will be import of cotton again in this year in the range of 1.5 to 2 million bales.

Akshay Jain:

Here we are relative to companies that are not able to buy cotton, the companies that are able to buy and stock cotton will be better off at least as far as the spinning sector is concerned. And we are again normally as normal. We will continue to do your cotton buying and as on 31st March we will have between 6 to 8 months' stock of cotton on 31st March. So Avi, we can open it to questions now.

Moderator:

Thank you very much. We will now begin with the question and answer session. The first question is from the line of Abhijeet Dey from BNP Paribas, please go ahead.

Abhijeet Day:

Just one or two questions from my side. What is the current trend in woven yarn prices this month, i.e. in January?

Sachit Jain:

Prices are gradually declining downwards but now they seem to have stabilized and with the rupee depreciating we believe eventually over the years the bottoming out seems to have happened. Neeraj, would you like to add to that?



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- Neeraj Jain:** As of now for the last two months there is no drop in the prices but at least the drop which was happening continuously as of now has been arrested.
- Abjijeet Day:** Given Mr. Dhuria's outlook on cotton prices, do you think once the peak arrival season is over in March or April, do you think yarn prices can also move up?
- Sachit Jain:** It is difficult to comment on that because this is Indian situation and prices are all determined by global situation. But yes, as the rupee depreciates, in the rupee terms all other prices in India would definitely go up.
- Abjijeet Day:** And sir secondly on the fabric side you mentioned new capacity for printed fabric will come up by the first quarter of next fiscal, so on an annual basis now you can produce about 180 million meters of fabric.
- Sachit Jain:** No, this is incorrect. Currently our capacity of processed fabric and we talk only process fabric capacity.
- Abjijeet Day:** No, I am talking of the total capacity.
- Sachit Jain:** Yes, so our process fabric capacity will 110 millimeters and this will add only about 10 odd million meters' capacity and it will take some time for it to fully utilize. So I expect the full impact of this plant to come in only in 1718. Last quarter we should start seeing some impact, full impact in 1718.
- Moderator:** The next question is from the line of Dhaval Shah from Sidhesh Capital, please go ahead.
- Dhaval Shah:** My question is for Mr. Sachit. Given the fall in polyester prices how much demand of cotton has shifted to polyester at the global level and also in India? Any rough estimate or idea?
- Sachit Jain:** See this is a continuous process of shifting of capacity. So synthetic fibers globally are becoming more and more predominant in the consumption. It has changed a little bit by little bit 1 year, then second year onwards. This is going to continuously happen. And which is why companies like Vardhman which are not bedded to cotton. We already have a strong presence in branded yarns and we are increasing our capacities in blended yarns.
- Sachit Jain:** And one advantage that cotton mills have is cotton bales have is cotton bales can easily shift to blended yarns, whereas blended yarns may find it difficult to shift back to cotton.
- Dhaval Shah:** Okay, so agree on that part. So you are saying that it is an ongoing process. What would be the reason for this for a shift from cotton to polyester?
- Sachit Jain:** No, not polyester itself. It is polyester plus viscose because all these fibers when you blend it together there is cotton you can get or sometimes only synthetic fibers you can get better functional qualities. So for example, anti-wicking kind of, if you want to have that kind of stuff



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then you have to have synthetic. So if you see sportswear and t-shirts of sports, I mean Adidas, Nike etc. and the more and more the t-shirts now are synthetic. For joggers wear etc. is all synthetic. Then in the fashion area also if you have the blended yarn the full impact of that on the fabric is far higher. In fact our fabric range we have a very good range of cotton tensors and cotton modals etc. So a lot of cotton will be used in blends and again we have to understand that we are a small player because of the fragmented industry, so there will always be scope for even a 100% cotton producer.

I J Dhuria:

If we look at historically the international prices Cot look versus international polyester staple fiber prices, the relationship with polyester if it is polyester is one and Cot look A index is 1.3. If it is more than that it goes in favor of polyester consumption, synthetic consumption. If it is less than that 1.3 it goes in favor of cotton consumption. But particularly in the current scenario in the last 6-7 months when the crude oil prices are going down and polyester staple fiber, manmade fiber all prices are going down, this relationship is going to further widen. If we look at the Cot look A index which is today about say 68-69 cents a pound, international policy of fiber prices are around 88 cents to 98 cents per kilo. The relationship is now more than 1:1.5. It is going more in favor of manmade fiber consumption and that is why there is a more increase in the blends and the non-cotton yarn production globally.

Dhaval Shah:

So sir if we want to change our production line and increase more blends, so does it take too much time to do that or it is a very -

Sachit Jain:

Not for us. When you switch from synthetic to cotton you would have to add combing, you have to change card wires and so on, whereas if you move from cotton to blend it is just at that certain capacity, certain equipment you have may not be used any longer. And certain modifications of course have to be made to make it easily doable.

Dhaval Shah:

And sir in the last call, in the second quarter we discussed regarding increasing demand from Bangladesh, so any improvement in that, increase in demand? Have any Indian companies gone there and put up spinning capacities because last year there was a delegation which went to Bangladesh and that is what we had discussed. So what is the current status right now?

Sachit Jain:

I am not aware of anything. Neeraj, would have any report on this? Indian spinners putting up capacity in Bangladesh, I have not heard of that.

Neeraj Jain:

Many Indian spinners are putting up capacity but the local people are adding the spinning capacities, now their cotton capacity has been increased.

Dhaval Shah:

Okay, for us the export to Bangladesh has it improved quarter on quarter?

Neeraj Jain:

Not really. A little bit change in the overall number from India but not very significant.

Dhaval Shah:

And sir what is the current debt today?



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- Sachit Jain:** Current debt is about Rs. 1000 crores.
- Dhaval Shah:** And sir considering we do a Capex over the next 2-3 years' period, so may be by FY17-18 what would be our absolute number of debt which we would like to keep, like any number in mind?
- Sachit Jain:** We do not have any number in mind. We are clear we will not allow it to exceed 0.75 and since we do not have any major expansion plan just now we have announced expansion plans beyond this 1000 crores already announced. So debt equity will be very-very comfortable which will also enable us, give us a chance that if a good acquisition comes along we will be able to act fast.
- Dhaval Shah:** And this is the last question, under the new textile policy I think the TUF scheme has changed and we will get a capital subsidy. So our cost of borrowing would go up, correct, compared to our previous Capex what we were doing and what TUF loan.
- Sachit Jain:** That is right.
- Dhaval Shah:** So how much is the capital subsidy right now?
- Sachit Jain:** It is I think 15% or 20% depending on whether it is fully integrated into garments and with a cap of Rs. 20 to 30 crores.
- Neeraj Jain:** It is Rs. 13 crores, 10% with a cap of Rs. 20 crores in different segments.
- Moderator:** The next question is from the line of Keshav Garg from Equity Mechanic, please go ahead.
- Keshav Garg:** Sir my question is regarding our subsidiary Vardhman Acrylics, so as you know that crude prices have fallen in January itself, is it fair to assume that Vardhman Acrylics will get an inventory loss in fourth quarter?
- Sachit Jain:** We do not comment too much on that because it is very difficult to keep tracking because we are a true derivative, we are not really a crude user. And we believe this company's EBITDA will keep fluctuating between Rs. 30 and 50 crores as far as the operations are concerned. Of course there is also treasury income because of financial assets of the company.
- Keshav Garg:** Sir one thing I wanted to highlight, like in previous conference call you said that you will consider giving a special dividend and increasingly distributed cash from Vardhman Acrylic.
- Sachit Jain:** We have not said that there is anything under consideration just now.
- Keshav Garg:** Sure sir, so I just wanted to highlight one fact that last year SEBI changes the buyback policy and sir now in a share buyback through tender offers there is zero long-term capital gain tax



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will apply. So since promoter shareholding is long-term now more than one year, sir so if Vardhman Acrylics does a buyback and promoters can also participate proportionately --

Sachit Jain: See all those things are under realm of speculation that is something that the board will take at the appropriate time.

Keshav Garg: Sir so the limited point I am just trying to make is that as opposed to a dividend where 20% dividend distribution tax applies, sir a buyback will result in cash transfer from company to shareholders with zero percent tax and the promoters shareholding also remains as is. So I just wanted to highlight this fact, that is all.

Moderator: The next question is from the line of Arjun Sengar from Reliance Mutual Fund, please go ahead.

Arjun Sengar: Firstly year over year by what percentage have yarn prices fallen?

Sachit Jain: Almost 11%.

Arjun Sengar: And cotton prices?

Sachit Jain: Third quarter this year versus last year third quarter almost 10% drop. Year wise it is almost same because the rupee has also depreciated from Rs. 62 to Rs. 67 in between.

Arjun Sengar: No, I am just talking about Indian prices.

Sachit Jain: Indian prices are lower by 10%.

Arjun Sengar: And sir you also said that over the last 2 months' yarn prices are basically flat, right?

Sachit Jain: Yes, that is true.

Arjun Sengar: Yes, but over the last 2 months cotton prices are up by about 6 months, right? So I just wanted to ask you is it fair to say that the demand scenario is so weak that yarn prices cannot go up in line with cotton prices. Is that the right conclusion?

Sachit Jain: See, one thing we must understand that Indian cotton prices have no bearing on international prices of yarn. And so yarn is an international commodity and it depends on global prices of yarn. And Indian prices may rise or fall depending on first global factors of course and some specific Indian local factors also which may contribute. And we have been maintaining which I said in our TV interviews today also and I began my opening comments that there are headwinds in this industry which means there is a demand problem because imports from China have come down and spinning capacity in India has gone up. So as an industry there are headwinds. Now if you speak about Vardhman it is a different situation.



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- Arjun Sengar:** And sir obviously you I think started procuring cotton from October and prices have gone up. Do you have any inventory gain in this quarter?
- Sachit Jain:** We do not disclose such event. This is internal company matter but our cotton buying as we said earlier we start buying in October that is correct and normally by 31st March we will have between 6 months and 8 months stock of cotton. We are in the middle of our cotton buying season?
- Arjun Sengar:** But it is unsure whether you have inventory gain this quarter.
- Sachit Jain:** We would not discuss those things. And normally an inventory gain, accounting policy you will never account for gains. For loss you have to account for it immediately.
- Arjun Sengar:** Sir secondly in your volume numbers your yarn sales are up 6%, gray fabric is up 3%, processed fabric is down 1%. So I just wanted to understand in that context how do you explain 18% EBITDA growth. Is it purely because of efficiencies or what explanation would you give?
- Sachit Jain:** Are you talking from last year to this year?
- Arjun Sengar:** Yes, year over year.
- Sachit Jain:** There is an impact of product mix also, customer mix and prices, so different items. When we give the prices of yarn we are talking of 30s Comb, 1 standard yarn price. And this is where many people ask me the same question that how come the industry is having severe headwinds and how are you being able to operate differently? It is primarily because of very-very diversified product mix and very diversified customer mix.
- Arjun Sengar:** What I am saying is that your volume growth is sub 5% and your EBITDA has grown 18-19%. I just wanted to understand that.
- Sachit Jain:** Last year there was some element of inventory losses in last year third quarter. This year there will be no inventory loss. That is one of the reasons. And the other part would be product mix and then the rupee depreciation has also helped.
- Arjun Sengar:** And inventory loss is a significant contribution to this growth compared to last year? Is it a significant element?
- Sachit Jain:** It is a factor.
- Arjun Sengar:** And sir currently at standalone level what is the mix between yarn and fabrics in your revenue?



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- Sachit Jain:** We do not declare that. The company report has one segment textile but suffice to say that the growth plan for fabric will be higher than that --
- Moderator:** The next question is from the line of Rahul Bhangadia from Lucky Investment Managers, please go ahead.
- Rahul Bhangadia:** Sir just 2-3 things. One is just a short clarification, the net debt of 1000 crores that you mentioned that also includes the working capital debt that you may have. And sir just one question that had kind of discussed may be 6 months -
- Sachit Jain:** Thapar, is it 1000 or little bit more than thousand?
- Rajeev Thapar:** Declared results as of 30th September balance sheet which we have published, on that basis it is Rs. 1000 crores.
- Sachit Jain:** Okay, it would be higher now because we are in the middle of the cotton season.
- Rahul Bhangadia:** Okay. Something we had discussed may be 2-3 quarters back as well, you had mentioned that the quality of the Chinese cotton inventory which is now, some of it is 2011, some of it is 2012, would that still hold in the sense that the quality will deteriorate as time goes by and does cotton become unusable after a given point in time?
- Sachit Jain:** No, no it is never unusable, it will always be used for some product but the quality deteriorates so it cannot be used. Cotton which is 5 years old cannot be used for good quality yarn. And Mr. Dhuria can you elaborate on this please?
- I J Dhuria:** Definitely this cotton cannot be used for a good quality yarn but yes it can be used for open end for certain say lower quality woven fabrics but not for the knitting applications.
- Rahul Bhangadia:** So in that sense this cotton inventory overhang that is there from China, it does not really affect players like Vardhman who are not doing the commodity-commodity kind of game.
- Sachit Jain:** I think as of now it is not affecting, but supposing tomorrow China just starts to dump that cotton, which is highly unlikely, but if it does it will bring down the overall cotton prices. So it depends on what stage do they do that.
- Rahul Bhangadia:** But that will be a kind of transient effect in the sense that okay, it might last for 3-4 quarters but it is likely to be a transient effect with the after effects being even more kind of on the other side basically.
- Sachit Jain:** Absolutely, I would tend to agree sir, but very difficult to predict what the Chinese market holds.



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- Rahul Bhangadia:** Fair enough, but I am saying as and when they do it, it is going to be a transient effect, not exactly a permanent effect. Okay, sir just on the cash flow bid, you mentioned that you do not have any major Capex plan besides what you have already announced and company is obviously generating a lot of cash. So you had mentioned that FY15 and FY16 are going to be years where you are going to kind of repay debt and also can shareholders look forward to better payouts in FY17 as well?
- Sachit Jain:** I cannot comment on that. That is something for the board to comment. But yes, in times to come and as already been demonstrated in the last two years we have stepped up the dividend payout. So in the next year or two either we will come out with a more aggressive expansion plan or clearly debt dividend payouts would increase or a combination as approved, but very difficult to say this at this point in time.
- Rahul Bhangadia:** My last question, when you say aggressive expansion plan, for the size of your company even a 400 crore Capex per annum is not exactly big, so now what do we understand by aggressive?
- Sachit Jain:** As I have already said that we do not intend seeing our debt equity crossing 0.75. At the peak when we really did aggressive expansion plans our debt equity had touched 2:1. So nowhere will it be as aggressive compared to the size of the organization as it has been in the past 10 years ago or 12 years ago.
- Rahul Bhangadia:** Okay, so then that basically matches what you are doing right now, right sir? 300-400 crores per annum is what you are doing right now.
- Sachit Jain:** It may become very difficult to predict exactly what we will do because those are matters, if a good acquisition comes ahead we might buy it off the whole thing at one time, so who knows?
- Rahul Bhangadia:** So in general is the market kind of favorable? If you want to do an acquisition are there stressed valuations available?
- Sachit Jain:** See very clearly, this is all public knowledge, so the way the RBI governor is cracking the whip the banks will have to start taking control of assets and then they will have to start disposing off those assets. So I am sure good assets are going to be around the corner. Around the corner could be six months down the line, a year down the line, two years down the line, very difficult to predict that. But as you look around in the companies in the listed space you see stressed companies. So those kinds of things could come up who knows when. At least our balance sheet is ready that in case such a thing happens at the right valuation we can move past.
- Rahul Bhangadia:** So mostly you are looking at the spinning side or you are looking at the fabric side?
- Sachit Jain:** I think we are looking at opportunities as and when those opportunities come we will be open in our areas, we are in yarn, we are in fabric. We have no plans in any apparel acquisitions.



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- Moderator:** The next question is from the line of Chintan Sheth from SKS Capital & Research, please go ahead.
- Chintan Sheth:** Just so you mentioned in the net debt figure, I am just looking at the half-yearly September quarter balance sheet, we got a long term debt of around Rs. 1200 crores and Rs. 400 crores of short term debt. And cash balance is around Rs. 400 crores and current investments of Rs. 1075 crores. So I am just wondering, can you just detail me on the debt figure on long term as well as short term and cash on hand?
- Rajeev Thapar:** Under the head current liabilities there are current maturities of long term debt which is included in that figure. So if total long term debt is about 1800 crores, working capital borrowing is about Rs. 450 crores. So we balance it out against investment when that debt comes to around Rs. 1000 crores. So the current maturity I think is missing in that.
- Chintan Sheth:** Okay, so Rs. 1250 odd crores cash we have got currently net off?
- Sachit Jain:** I think we can take this question offline later, if we can just come back sometime later?
- Chintan Sheth:** Sir again coming back on the invention that industry is facing headwinds but the case is different for our company. Can you just elaborate a bit more on that front that how different we are placed right now in the industry and how we can benefit out of it? And also can you touch up on any issue related to TPP which might impact us or it is totally garmenting companies which will face the heat if the TPP comes into play?
- Sachit Jain:** One as I said that we are very large and we are very diversified, so we have several product lines. And we are very diversified in terms of our customers. Plus, because of our focus on quality and continuous upgradation we are able to secure larger set of customers and better customers. So we do not sell to merchants. We sell directly to the users of yarn. This is a far better idea of market situation and we are able to get better prices than most competitors. So it is because of all these reasons that we are today despite India being surplus in yarn Vardhman is short of good quality of yarn. So most of our customers are having trouble, I mean we are having trouble in terms of fulfilling the requirements of our customers. It is for this reason that the headwinds do not affect us as much as rest of the industry. Of course, we cannot be totally insulated for what is happening in the industry and if margins for the entire industry keep going down then our margins will also go down but they will remain higher than industry. And the other advantage we get is because of integration with the fabric. So if yarn margins go down, then fabric margins go up.
- Chintan Sheth:** And in TPP; does it impact also?
- Sachit Jain:** So, TPP will, 1) It will take some time for TPP to fully factor in and once it comes in fully then the direct impact is going to be on far more on garments, so as yarn suppliers and fabric suppliers; the impact on us is going to be more limited. There is also lot of talk on Indo-EU



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FTA and there is lot of traction on this and if this happens, it will be a very big boost for Indian Apparel Industry and therefore for Indian Textiles.

Chintan Sheth: And lastly on the CAPEX; you mentioned Rs. 1000 crores, that is for spread over next two years?

Sachit Jain: Next 3-4 years, this is the announced CAPEX; I am sure in the next few months, we will come out with some more CAPEX plans.

Chintan Sheth: And sir our current capacity utilization segment wise in terms of...

Sachit Jain: It is almost full.

Moderator: Thank you. The next question is from the line of Jimesh Sanghvi from SBICAP Securities. Please go ahead.

Jimesh Sanghvi: Just wanted to check on the performance of your subsidiaries, if one looks at excluding the standalone performance from the consolidated numbers, we see almost a 30% increase on the EBITDA on a year-on-year basis, so if you can let us know which subsidiary has contributed to this growth, is it largely the thread business and how do we see it sustaining going forward? And secondly, on the employee cost; we have seen an increase of 11% sequentially, so if you can throw some light on that as well?

Sachit Jain: So, none of the subsidiaries is doing anything extraordinary; that is normal kind of performance across the subsidiary. So, on the personnel costs, the recent change in the Bonus Act, we have absorbed a large amount of the extra bonus that the government has announced, so part of it has happened in this quarter.

Jimesh Sanghvi: Should we see this run rate on the employ cost being there even in the 4th quarter and then get normalized in the FY17 year?

Sachit Jain: We have to see just now how we are going to take the other costs later. But otherwise we are continuously improving on manpower productivity.

Jimesh Sanghvi: On the subsidiaries; if you can just give me the EBITDA for the thread business, probably for the 9 months or for the current quarter? And how it was in the preceding quarter year-on-year?

Sachit Jain: There is not too much of change in the performance, it is a marginal change.

Rajeev Thapar: EBITDA we are not disclosing, it is having normal EBITDA of 20% thread business, so we are holding 51%, that is coming into the profits of Vardhman Textiles.



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- Jimesh Sanghvi:** Also sir one clarification, I just wanted to confirm, you are adding 10 million meters of print fabric, right which will get commissioned in FY17?
- Sachit Jain:** That is right, print and yarn dyed and processes, so overall process fabric about 10 million getting added.
- Moderator:** Thank you. The next question is from the line of Abhilasha Satale from First Global. Please go ahead.
- Abhilasha Satale:** I just want to understand the way you explained this cotton production in consumption scenario, how it is about yarn like; how much exports have increased during the current financial year and also on the domestic front, how consumption has moved?
- Neeraj Jain:** Our production of yarn is close to about 350 million kg per month.
- Abhilasha Satale:** And how it has moved year-on-year?
- Neeraj Jain:** See, I think the picking happened and then the yarn production started coming down, as of now it is close to about 335 and 338 million kg and so and so on comparable to the last year figures.
- Abhilasha Satale:** How has exports moved during the current year?
- Neeraj Jain:** Exports figures are almost 105-107 million kg per month, so there is no change as far as from the last year is concerned and maybe 2-3% drop only, so there is no increase in the export numbers as far as yarn is concerned. Since the overall production of yarn numbers is higher, so there is more availability to the extent of 15-20 million kg for the domestic market which is giving a pressure to the domestic market also.
- Abhilasha Satale:** I think we see there are many capacities also getting added on the spinning side, like some of our peers are doubling or tripling their capacity, so how do you feel like; does production pressure will still remain on the yarn side, in spite of this subdued demand scenario, how do you see this production panning out over a medium-term perspective?
- Sachit Jain:** See, eventually laws of economics work out; if the industry is not making money, then people who are already in the middle of projects, of course they have to continue but eventually new projects inquiries will start coming down and new persons come and they come in straight in commodity yarn. So, for them to graduate from commodity yarn into specialized yarns and into specialized customers and into diversified products mix is not that easy.
- Abhilasha Satale:** Will there be consolidation, can we see you were also saying that there are stressed assets and on the one side you are saying that, on the other side there are some peers which are still expanding very aggressively. So, I am just trying to understand that where we are currently in



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terms of industry assets like, supposing say weak demand scenario and still increasing production which is likely to consolidate in the medium term?

Neeraj Jain: We are in an oversupply situation and we will continue to be till the time these expansions are....

Sachit Jain: But over the next 3-4 years what is going to happen is, cost in China is going to rise in continuously, so eventually we will see some balancing out on the global capacities; but over the next 3-4 years.

Abhilasha Satale: Okay, sir my second question is, is it fair to assume that our current cotton procurement cost is around 7-9% lower than the last year?

Sachit Jain: We do not comment on our procurement.

Abhilasha Satale: Okay but overall cotton prices are down, year-on-year, right?

Sachit Jain: Yes so we do not comment on how much percentage of our procurement down from last year?

Abhilasha Satale: Thirdly, how has cotton yarn spread moved quarter-on-quarter, if you could just throw some light on it?

Neeraj Jain: The spread in this quarter has remained in the range of say 80-85 cent a kg and in the previous quarter it was in the range of about \$1.

Abhilasha Satale: And that is like in the current quarter, like Q4 how has it been because yarn prices have remained stable and cotton prices have gone down marginally, so how do you see that is. Sorry, cotton prices have gone up marginally.

Sachit Jain: So, as I said, very difficult to predict quarter-on-quarter, we continue to maintain as of now that we will be in the range of 18-22% and clearly if cotton prices are rising marginally, then our range will be between towards the lower end of this range, but we still believe in the next 2-3 quarters we will be within the range, which is our normal range.

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

Avi Mehta: I am trying to understand a small difference here; you highlighted that and I look at the industry data, spreads in the 3rd quarter were lower than what they were in the 2nd quarter and yarn margins actually have improved very sharply, now a) We can assign it either to inventory cost kind of increasing but what I am trying to understand; is this 20% the level that the industry is at because that does not kind of time this spreads or is it more to do with higher fabric share? And could you share what is the one that kind of has helped the company per se or is this a work indication of industry?



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- Sachit Jain:** So, 1) I doubt that most of the textiles companies will be around 20%, I think it is highly unlikely. So, they would be at a lower end, I guess. One odd company which will be at a higher end but most of the companies would be at the lower end.
- Avi Mehta:** So, this is a steady state on the market basis, as market, Vardhman can make about 20%, so what are the likely downside risks for the 4th quarter because logically then if at the 3rd quarter on the market level prices.....
- Sachit Jain:** 4th quarter, I do not think there is any danger because we are already in January end and we normally spell a month and a half forward, so the 4th quarter is pretty much in the bag, so very unlikely that we will see a major surprise in the 4th quarter. We will be within the range but, yes cotton prices are rising and average cotton prices is rising, so we would start moving. See, one factor which will start pulling the return a little bit down would be rising cotton prices and a factor pulling it up will be depreciating rupee. So, which factor plays a bigger role, very difficult to predict exactly and we do not go into decimal points and so on, so we are just saying suffice it to say will be around that 18-20% range for the 4th quarter as we expect, as I said the next two quarters also we see similar kind of performance, very difficult to predict exactly what will be.
- Avi Mehta:** Fair enough. And sir, the second point which I am trying to gain clarity on is; your fact about how the cotton price environment is going forward. This is an environment wherein supply is likely to be lower than consumption and ability of players like us to lock in, if I may say a cotton price, would that not suggest that we would be better placed than the competition in terms of our return profile?
- Sachit Jain:** I would tend to agree but depends on which competitor are you comparing with; if you compare with spinners, definitely we are far better off. So, very difficult to compare from company to company where compared to which company we will be better off and to which company we will be....
- Avi Mehta:** No, I meant an industry, let me just rephrase it?
- Sachit Jain:** Industry overall, since spinning companies are far larger in numbers they will be better off in margins compared to the rest of industries. And the extent of difference, I think will become more visible over the remaining next 2-3 quarters.
- Avi Mehta:** And lastly, you said that beyond this Rs. 1000 crores that you had early, which you are already working on and it is already in progress, is there any other plan that you can share now or is it...?
- Sachit Jain:** No, thinking is on, all kind of discussions, plans keep coming up but no decision has been taken so far.
- Moderator:** Thank you. The next question is from the line of Amit Doshi from Care PMS. Please go ahead.



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- Amit Doshi:** Sir you explained initially about this cotton, the price working in terms of the relationship between the cotton and the yarn prices, where you said that the yarns are governed by the global factors and we will not have much bearing on the yarn prices but would that change if the Indian cotton prices and Indian yarn prices were to be considered and if you can explain the same in the cotton to fabric ratio?
- Sachit Jain:** See, 1) I think if Indian cotton prices rise very dramatically or very significantly, there will be no direct impact in yarn prices but there will be an indirect price because what will happen is yarn companies will start shutting down capacity as they start losing money; in fact, it is this reason that as some companies started shutting down capacity that the prices of yarn that were falling, stopped falling. So, over the later part of this year if the cotton prices in India start rising because of shortage of cotton, then we will expect some spinning capacities to start shutting down for 1 day a week, 2 days a week or rotating basis and so on, which will balance out the demand and supply which could then lead to a price increase but also if the rupee depreciates further, then the same dollar price will lead to better rupees, so what we like to say is; that it may not have much of an impact but if the rise is too high, yes it could have some impact.
- Amit Doshi:** And in context of cotton to fabric?
- Sachit Jain:** The impact of cotton on fabric is much lower as I said that the prices all depends on global prices of cotton because most of our customers, even if our domestic sales is actually international buying houses. So if Indian cotton price rises, the probability they will give us a price increase is very low.
- Amit Doshi:** And the margin difference was raw of yarn versus fabric would be....
- Sachit Jain:** We do not share that but it suffices to say that the volatility in the fabric is much lower than the volatility in the yarn.
- Amit Doshi:** That would be fair to answer.
- Sachit Jain:** And fabric margins are little bit higher than the yarn margins.
- Amit Doshi:** In terms of this quarter, there has been substantial, I mean quite a few reduction in terms of power and fuel bills; can we say that this is likely to continue for future quarters?
- Neeraj Jain:** It looks like this can continue, the new ARR and the new tariffs will be filed somewhere in the month of February, March by most of the states and the new rates are generally applicable with the effect from 1st of April. If there is any major increase in by any of the States, this should continue.



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- Amit Doshi:** And there has been quite substantial fall in operating income; if you were to look at 9 month, last operating income last 9 months have been Rs. 110 crores and which has reduced now to Rs. 35 crores, can you explain that?
- Rajeev Thapar:** Last time actually there were some FOREX income which has not accrued this year.
- Amit Doshi:** So that is a substantial year. And just wanted to know; our split for domestic sales, export sales versus internal consumption.
- Sachit Jain:** So in yarn, it is roughly little over 1/3rd for export, about 1/3rd for internal consumption and marginally below 1/3rd for our domestic sales. And fabric is about 25-30% is exports and remaining is domestic sales. So, in domestic sales also, a large part goes in ultimately for export consumption.
- Moderator:** The next question is from the line of Resham Jain from B&K Securities. Please go ahead.
- Resham Jain:** Sir, couple of questions; one is on the yarn side, this is slightly from a medium to long term perspective with the kind of structural changes we are seeing; one, this year we have specifically seen the overall Chinese import of cotton yarn got reduced and it was very good in FY14, FY15 and a part of FY16 we have seen it coming down continuously. Secondly, Vietnam; lot of Chinese players are putting up capacities in Vietnam and third in the light of the new tough policies where probably we may not see the unwarranted irrational spinning capacities which used to come earlier, probably some of those capacities may not come. So in those three major factors, how do you see yarn as a sector going to perform probably one, one and a half years down the line?
- Sachit Jain:** Medium-to long-term, yarn will continue to be good but in the next year, year and a half, very difficult to predict because; one – Central subsidy has gone down but State subsidy still continues so Gujarat, Madhya Pradesh, Maharashtra are still giving large State subsidies and some projects are already in the middle of execution, so very difficult to stop a project which is in the middle of execution. So, what is going to happen is; eventually some moves have start, you to start changing hands, some solid decisions to start happening, something we will close down temporarily and so on, which will bring in more balance in the industry.
- Resham Jain:** Secondly, just related to yarn; will you be able to share how much percentage of your yarn will be from compact?
- Sachit Jain:** We do not share all those details.
- Resham Jain:** But will it be substantially large?
- Sachit Jain:** Yes, substantially large, it is the large capacity



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- Resham Jain:** Because we have seen one of the large capacities coming in from Sintex, which is completely 3, 00,000 spindles into compact yarn, so just wanted to get a sense. Do you feel like because they are saying that probably they will put it for exports; will that be substantial enough to impact the overall?
- Sachit Jain:** No, it will not be substantial enough to impact too much but yes, all capacity expansion if happens, does have an impact overall.
- Resham Jain:** Secondly, on the fabric business, will you be able to share how much of your fabric business is 'Make to order' business?
- Sachit Jain:** All.
- Resham Jain:** Everything, ok, in the grey fabric as well?
- Sachit Jain:** Yes, see grey fabric, we do not report that as a business. it is primarily meant for our process capacity and any surplus capacity we have we may sell outside. So that is something we do not track and we do not like to comment on that because that is not a business segment we are focusing on.
- Resham Jain:** Sir finally, on the acquisition possibility which you have mentioned, so will we maintain that, after acquisition also we will maintain our debt equity to remain around 0.75?
- Sachit Jain:** Very difficult to predict exactly what will be our financial position at that time, but we are not comfortable with that level, we are not very comfortable if debt equity is much higher than that.
- Resham Jain:** This bonus thing which you have spoken about; is there any provision impact also of the previous quarters which got reported or accounted for in this quarter? We have seen some of the companies' reported the last 7 quarters provision also in this quarter, so I was just wondering because that is the last....
- Rajeev Thapar:** Actually, for the current year, starting from April onwards, we have provided in this quarter. For the fourth quarter, we will take effect in the fourth quarter itself.
- Moderator:** The next question is from the line of Keshav Garg from Equity Mechanic. Please go ahead.
- Keshav Garg:** Just wanted to understand, the value addition from yarn to fabric; so for example, if you are selling yarn for Rs. 100, then fabric will be how much?
- Neeraj Jain:** Generally, if the yarn is Rs. 100 a kg, fabric cost will be close to about Rs. 150, Rs. 160 a kg.
- Moderator:** The next question is from the line of Sameer Gupta from IIFL. Please go ahead.



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- Sameer Gupta:** Just one question; your nine months' performance suggest a consolidated tax rate of 30%, could you just provide guidance for the FY16-17 tax rates please?
- Rajeev Thapar:** Hope that it should remain in the same range.
- Moderator:** The next question is from the line of Saket Kapoor from Kapoor & Co. Please go ahead.
- Saket Kapoor:** Only one question left to be put forward; Sir was telling about the acquisition part, a lot of stressed capacity in the system, so we are looking only for the spinning part capacity or the vertical integration also because, if you take someone in your neighborhood only; is building up a huge capacity that has gone into a lot of trouble, so are we looking into the entire value change or only for the spinning part?
- Rajeev Thapar:** Have not decided anything in specific, open to the ideas; any good capacity which comes up; open to look at yarn as well as the other areas provided it is a good capacity.
- Saket Kapoor:** Even the terry towel segments?
- Rajeev Thapar:** There are no specific discussions till now but if a good capacity comes in, or which is making sense in the overall business scenario, we are open to look at the same.
- Moderator:** The next question is from the line of Sandeep Baid from Quest Investment. Please go ahead.
- Sandeep Baid:** Just wanted to know; what is your target; yarn to fabric sales mix over the next three years for external sales?
- Rajeev Thapar:** Target that we have to reach this month so that is why we have to add capacities, both the divisions are working independently and depending upon the opportunity and the profitability, we will keep on expanding both the divisions. So there is nothing that we have to have so much of fabric so that is why we have to expand the capacities, it is more driven by the opportunity available in both the segments and whatever number comes in, that is the residual figure.
- Sandeep Baid:** But you think mix will move in favor of fabric going forward? Of course you are doing CAPEX on the fabric side, so I guess it will, but to, from a medium term perspective as well, that will be the case?
- Rajeev Thapar:** That is true.
- Sandeep Baid:** And on your depreciation; can we take the current depreciation as a stable state because last year your depreciation was much higher?
- Sachit Jain:** You can take that.



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- Moderator:** Thank you, we will take our last question which is from the line of Manu Sehgal, he is a retail investor. Please go ahead.
- Manu Sehgal:** Okay, so my question was; couple of things, one of the things is that the power and fuel costs have gone up compared to previous quarter and I understand primarily reasons for that as well as the interest costs have also gone up compared to previous quarter, whereas the debt was showing lower as on end of September, given the lower raw material prices I guess. So I just wanted to understand those two figures in Vardhman Special Steels.
- Rajeev Thapar:** We are not aware of all the figures but I think you are looking at as an absolute number, whereas the overall production in the steel has increased, so I do not think there is any increase in the per ton; per ton definitely both power, fuel and other state expenses are coming down only. We are in a position to ramp up the capacity and utilize it fully, so to that extent, the overall absolute figure is increasing but per ton figures are coming down only.
- Manu Sehgal:** And in terms of finance cost?
- Rajeev Thapar:** The composition of borrowings has got changed; some buyer credits were there which have got converted into loans; that is why finance cost seems to be higher in this quarter.
- Manu Sehgal:** Okay and this will continue at this rate going forward as well.
- Rajeev Thapar:** Yes.
- Moderator:** Thank you, Ladies and Gentlemen, that was the last question; I would now like to hand the floor over to the management for closing comments.
- I J Dhuria:** We thank you very much for all the participants to join us on this third quarter call and as management we have always been sincere, we will keep on working hard in future to make sure that the operations could be under control. Market is volatile, will continue to be volatile and within that our, most of the aspects are that how we can bring more stability to the company and can give a better returns to the shareholders and the people who have invested into us. So we thank you very much all of you for joining us and to IIFL, who has organized this call. If you have any questions, you can ask us separately, we will be more than happy to answer the same. Thank you very much.
- Moderator:** Thank you, on behalf of IIFL that concludes this conference. Thank you for joining us and you may now disconnect your lines.