



“Vardhman Textiles Q1 FY17 Results Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to Vardhman Textiles Q1 FY17 results conference call hosted by IIFL Capital Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Avi Mehta from IIFL Capital Limited, thank you and over to you Sir.

Avi Mehta: Thank you Ali. Hi, good evening everyone. On behalf of IIFL I would like to welcome all of you to the 1Q FY17 conference call for Vardhman Textiles. From the company we have with us the key senior management including Mr. Sachit Jain – Executive Director, Mr. Rajeev Thapar – CFO and Mr. Akshay Jain – Investor Relations. I would now like to hand over the call to the management for their opening comments. Over to you sir.

Sachit Jain: Avi thank you. Ladies and gentlemen, thank you once again for coming to our call. Along with me are also Karan, our Company Secretary, Neeraj Gupta, who is head of our Accounts, Mr. Dhuria, the star of our Company's performance, the Head of Raw Material and I also got a special guest today my daughter Soumya who joined the company two years ago and who is coordinating the printed fabric project. So she's here just as a participant, as an observer.

One thing, of course, we have had an announcement, a change in management, so my wife Suchita Jain has re-joined the company's active services as a working person after some family health issues have been resolved, so she has rejoined the company as Joint Managing Director. She was working full time since December but the Board finally accepted her as a Joint MD in the company.

As regards the performance of the company our quarter has been similar as last year same quarter. The performance has two components, there is little bit of production increase because of productivity improvement and there is price reduction because of the market forces, so the sales turnover is almost of the similar order of magnitude. The EBITDA margin is of the similar order of magnitude around 22% so which is within the range of our stated range 18-22%.

The other two changes in the company are depreciation has gone down a bit and IndAS because of that our FMPs on the Company's books we start recognizing some income now. Earlier the income would be recognized only when the FMPs were cashed which was lumpy income, now of course, part of that has come in. And the consolidated results are showing a much better performance at net profit level primarily because of the good performance of our subsidiaries Vardhman Acrylics as well as Vardhman Yarns & Threads.

Lot of questions are coming in about what's happening to cotton prices. So cotton prices really starting rising in the month of June and continued to rise in July and, of course, tempered down a bit now in August. As a result of that yarn prices also started rising. So all this impact of yarn



prices increase, etc., will happen in the second quarter. So second-quarter performance of the company should be better than what we had earlier estimated. But overall in the year end I think as a full year our performance would be similar to that of last year.

We had said in the last meeting that there would be an announcement of a new CAPEX plan from the company. So plans are not yet finalized and almost ready and we are talking to a couple of states as to decide which state to enter depending on the kind of package that state gives us so we should be able to announce that within the next few months, but planning is now almost complete. We are feeling the need to expand our yarn capacity. We are also feeling the need to expand our fabric. We see opportunity in both of them. In fact, in yarn our share in exports has risen to 9-10% from where it was it was earlier 6.5% or so because we have been able to maintain or slightly improve our exports whereas the overall exports in the country have gone down. We are still filling tight capacity. Our customers are demanding more, we are not able to service them fully as far as the yarn business goes.

As far as the printed fabric project which is a real main change this year as I said earlier we will see the full results of that project in the next year. Of course, for the next year the main thing is what is going to happen to cotton prices and cotton crop. The cotton prices already has, the futures have already dropped to around Rs. 42,000 a candy in November whereas in early August the peak price touched was Rs. 50,000 a candy which came down to about 46,000-47,000 which is the current prices at that level and the future is already down to 42,000 which is signifying what the prices will correct as October onwards when the new cotton starts coming in.

Vardhman as always as standard operating practice, we have cotton stocks extending into the next season. This is our standard policy and this is something that we do every year.

One more thing, of course, our debt equity is going to come down a bit again in this year. Our closing debt equity should be around 0.2, net debt equity. The other big event which is happening in the company, of course, is the transaction with AND. We are very close to finalizing everything; we are just waiting for a couple of more approvals to come in. If those come in and we should be able to close the transaction next month which means within second quarter the transaction should be complete and the money should come in into the company.

These are my opening remarks and I think numbers are already available with you, so we can straightaway move on to the questions.

Moderator:

Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We will take the first question Prerna Jhunjhunwala from B&K Securities. Please go ahead.

Prerna Jhunjhunwala:

I wanted some clarity on the CAPEX plans of yours; you were supposed to announce the details of the 1000 crore CAPEX plans in the first quarter results, so a status on that?



- Sachit Jain:** One, we already have an ongoing CAPEX plan so that is already announced earlier and the new CAPEX plan that we were supposed to announce as I said in my opening remarks we are still waiting for some clarifications from a couple of states that we are looking at investing in and the moment we have that clarity we will be ready to announce. Our planning is almost ready but we are still waiting for that final decision from the States and then we will be able to announce that so my apologies for being a little late in making that announcement. But the order of magnitude of that investment is likely to be between 1000-1500 crores.
- Prerna Jhunjhunwala:** Any directions on the likely percentage of increase in capacities or something?
- Sachit Jain:** I don't think we are ready to announce that just now but the expansion will happen both in yarn and fabric. And one of the main reasons that we also decided to dispose of the 40% stake in our thread company was so that we could concentrate on more expansion in our main lines of yarn and fabric.
- Moderator:** The next question is from Rahul Bhangadia from Lucky Investment Managers. Please go ahead.
- Rahul Bhangadia:** A question on the depreciation bit, it still seems to be running at a fair clip. Is there something that we should now take on an annualized basis or one or two quarters down the line this will go down?
- Sachit Jain:** It will drop a little bit more but, Yes, we are near where we should be.
- Rahul Bhangadia:** If I understand this right, say roughly about 80 crores a quarter you are the depreciating at about 300-320 crores a year so given the net block of the company at the end of FY16 this looks like the net block of the existing machinery will itself will go to probably zero in 5-6 years at this rate, is that the correct way to look at it?
- Sachit Jain:** Anyway the new depreciation norm means that you write-off the asset in 7.5 years.
- Rahul Bhangadia:** Okay, so in any case you will have to do it basically.
- Sachit Jain:** In 7.5 years it will anyway be down to 5% or whatever the residual value which is there.
- Rahul Bhangadia:** So this is as per now new norms and this is how it will go basically?
- Sachit Jain:** As of now that is the plan. The company as a company has not taken any view to change the depreciation norms to what should be the appropriate life of the asset and as you all know that in China the assets are written off over 15 years whereas we write them off in 7.5 years as per the Government of India mandate.
- Rahul Bhangadia:** While you maintain this depreciation run rate your repair run rate which you had previously in conference calls mentioned that about say 2.5-3% of gross that run rate of repair is maintained which passes through the P&L?



- Sachit Jain:** So our maintenance CAPEX will continue, what we plan to do, yes.
- Moderator:** The next question is from Sandeep Baid from Quest Investments. Please go ahead.
- Sandeep Baid:** Just wanted to check on the inventory do we follow the free flow method?
- Sachit Jain:** No, we have weighted average method of inventory.
- Sandeep Baid:** As of June 30th how many months of inventory were we having?
- Sachit Jain:** We don't share that information but we have cotton extending into the next season. This is standard practice, so every year we will have that.
- Sandeep Baid:** You mentioned that in Q2 the returns will be better because of the lower cost inventory that you have. But you said for the full year it will even out. So you are assuming the cotton prices to be higher and therefore the spread on yarn to be lower once the season starts?
- Sachit Jain:** Yes, third quarter we do expect because of carryover stock of cotton being very limited, so there will be panic buying and rushed buying in the markets, so it will take some time for the cotton prices to fall to where they should which is why November forward is still 42,000 whereas it should be lower. If there was a healthy carryover stock the November forward should be down to about 36,000-37,000 levels, it is still higher than what it should be. Of course, because of Vardhman's comfortable stock we don't need to do the panic buying as everybody else who doesn't have cotton will have to do but overall it will have some impact.
- Sandeep Baid:** Lastly, you mentioned that the benefit of the printing line will be more apparent in FY18 but would we see some benefit of that in Q3 and Q4 as well?
- Sachit Jain:** Q4 we should get better performance but it still will be too small to really come in the overall entire fabric. Overall our fabric business is about 110 million meters so adding another 9 million meters which is the total capacity of the printed fabric division and if we operate at about 80% capacity utilization we will be at about 7 million, so it's really just about a 6.5-7% increase in capacity. Even in the fourth quarter we may not get full impact but yes you should start seeing some impact of that.
- Moderator:** The next question is from Sameer Raj from Reliance Mutual Fund. Please go ahead.
- Sameer Raj:** Just wanted to understand this expansion plan which you are considering currently, so once these plans are announced from zero date how much time it will take before we start production?
- Sachit Jain:** Within two years. Some of the capacity it should happen within one and a half years, some within two years.



- Sameer Raj:** Secondly, this Welspun incident which has happened so does it affect India's image in anyway and does it affect our business in some sense?
- Sachit Jain:** Welspun let me say is otherwise a very strong company and we respect that company as a management and they are a customer of ours and we know them well for a long time. This kind of mishap can happen and may have a temporary impact on some companies in the home furnishings space. But the space Vardhman is in is a totally different space. I doubt we will get any impact of that and even on the other companies if there is any impact I am sure it will be very short lived and should get corrected automatically.
- Moderator:** The next question is from Manish Goel from Enam Holdings. Please go ahead.
- Manish Goel:** You mentioned that the company's market share has increased from 6% to 9% in exports due to decline in the yarn exports from India. So just would like to get a broader sense on the overall yarn market as to how is domestic demand doing and why exports are declining, is it particularly due to China and if you can highlight what's happening in the China market as well?
- Sachit Jain:** Yes the exports are declining because of China because overall now Indian cotton prices are very high and Chinese cotton prices are now linked to global prices. The Chinese spinners have become definitely more competitive than Indian spinners were in the past and therefore Indian exports to China have gone down. Now Vardhman is in a different class and category. Our customers remain standard and all our customers actually wanting more from us so because of that of sales don't get affected. Since the overall exports go down and ours remain the same or marginal increase that is why our share has gone up. So there is no effort on our side it's just that the market dynamics have changed little bit which has pushed our share upwards.
- Manish Goel:** But how is the demand growing in domestic market because as fabric or garment exports are growing from India or likely to grow do you see a scenario that the local demand will be much better going forward?
- Sachit Jain:** Let me add a little bit to the earlier question also there is a drop in the yarn production in the country also which is balancing out the overall stock position of yarn. Now domestic market will continue to rise and for companies again in the upper end of quality we will see over the next 8 to 10 years a healthy increase. The Indian per capita consumption of fiber is around 5 kilos. China is about 16 to 17 kilos; world average is about 13-14 kilos. So to expect Indian fiber consumption across all categories of fiber to go up from 5 kilos to 8 kilos over the next 8 to 10 years would mean a 60% kind of increase and with the population increase talking about 80% increase and with the increase in income demand for the higher quality product in India is going to increase which means demand for organized mills like Vardhman, Arvind, etc., that would increase. I am not saying every year will be great but over the next 8 to 10 years we are looking at good times for mills who are well established in the domestic market.



- Manish Goel:** But you also see a situation where probably the way home furnishings are growing and other products and probably even garments growing so the local demand itself for yarn to grow significantly going forward and our reliance on exports declining?
- Sachit Jain:** The domestic demand will definitely grow; I fully agree to that. And please also keep in mind the new factor with the government is announcing the scheme for apparel exports, so apparel exports are going to become far more competitive and we are talking to our customers in the apparel space some of them are getting very enthused looking at new investments in the country. So as all these policies get announced apparel production over the next 3 to 5 years is likely to increase substantially in the country which will lead to definitely increased demand for fabric and thereby increased demand for yarn. So it is in preparation for that that Vardhman is planning this expansion in both yarn and fabric.
- Manish Goel:** Two more questions, one on the China you mentioned that local spinners have become more competitive. Is it on the base of lower cotton prices or is there any other function?
- Sachit Jain:** I am sorry can you repeat that, I missed that.
- Manish Goel:** You mentioned that's Chinese local spinners have become more competitive.
- Sachit Jain:** Primarily because of cotton price arbitrage between Indian cotton as well as Chinese cotton.
- Manish Goel:** But what we hear is that last year itself the spinning capacity addition in China declined significantly from 7 million to some 3.8 million spindles, so just wondering that technically they are like kind of reducing the yarn manufacturing locally and focusing on more value added stuff also from the point of view that power costs and labor cost is increasing.
- Sachit Jain:** Year to year some situation may change little bit in the short-term. Over the medium term it was absolutely clear that China is going to become less and less competitive. As wage cost in China rise and cross \$ 800 and as area under cultivation in China is continuing to shrink so cotton availability in China is going to become more and more difficult so it is absolutely clear to everybody that Yes, one year, 6 months, 2 years, it may move up and down depending on some market situations in India. For example, in India earlier the cotton prices were fine as in the beginning of the season this year Indian cotton was the cheapest cotton in the world. It is when the stocks started running out that's when these prices shot up. So today's situation is different from what it was 6 months ago. Clearly relative to China India will become more competitive every year.
- Manish Goel:** Last question on the CAPEX what I recollect is in the analyst meet you had mentioned that you are looking to add 200,000 spindle capacity, that is one. And second you are probably also looking for some potential acquisition so still both the plans are on or you probably look for organic growth over inorganic growth?
- Sachit Jain:** We never made an announcement of 200,000 spindles. What we said somebody had asked me where can you see your spinning capacity going up to. So I said if I imagined it can go up to



200,000 to maybe 300,000 spindles or stuff like that so those are little nebulous figures over the next few years, so there is no definitive CAPEX plan to take our capacity up by 200,000 spindles. And second as regards acquisition we are still open to the idea of a good acquisition if and when a good acquisition comes available. We do believe there are good targets available but the banks will have to take massive haircuts to make it viable for any company to come in and take it over so which is what happened with Alok, it was on offer but when they got the kind of offers that they got from various potential buyers the banks decided to change track, because suddenly you take off huge write-off of 15,000 crores or 18,000 crores is not easy on one company, so that's why it's difficult. But if and when such a target becomes available we have the balance sheet and the management bandwidth to take it on.

Moderator: We have the next question from Srivatsa Rao from UTI Asset Management. Please go ahead.

Srivatsa Rao: I just had a question on GST, now with the likely introduction of GST probably next year or the year after that I believe that the cotton part can be impacted because there is no excise duty on cotton so do you see some kind of a shift happening to polyester and other fabric because of GST coming in?

Sachit Jain: There could be a possibility of that but also keep in mind one thing that for companies like Vardhman most of our products is ultimately meant for export. And in the organized sector anyway it doesn't matter because the whole thing is a GST will be a GST chain. So for our products very little of them go into the unorganized sector and smaller brand so most of our products which go in the domestic market also goes in for domestic brands. And spinners like Vardhman and fabric players like Vardhman are fiber agnostic, so from a cotton spinner we are also large blended spinners and we are continuously increasing our blended yarn capacity. So our ability as a cotton spinner to move into blends is far easier. For a synthetic person to move into blends is far more difficult and for a synthetic person to move into cotton is impossible. So for a cotton person to move into either blends or synthetic is relatively easier.

Srivatsa Rao: Is there any update on what could be the kind of reserve that China still has because I believe 3-4 years back they had accumulated significant cotton reserves so will you be able to give us some idea whether they are.....

Sachit Jain: I am just asking Mr. Dhuria, our Director (Raw Materials) to step in here. Not only will he answer this question I will ask him to give an update on what is the expectation for cotton for cotton area under cultivation, size of the crop, etc., so if that's okay with you all I will ask Mr. Dhuria to answer your question and give a little bit on what's the cotton outlook likely to be.

I. J. Dhuria: First of all, on the answer on Chinese reserves, as on 1st August 2015 with about 10.6 to 10.8 million tons of reserve stock other than the mill stock and commercial stock as on today they have already sold 2 million tons and they will be able to sell another 0.4 to 0.6 million ton by 30th September. So by end of say 1st of October they will be having a stock close to 8 to 8.2 million ton in their reserves. And then they will again start selling somewhere around 1st April, 2017. As far as the year 2016-2017 is concerned first of all the 2015-2016 there has been a



reduction in area first time when the production was less than the consumption by more than 2.5-2.7 million ton in the globe after adding almost 13 million ton in the previous five years and there is a reduction of 2.5 to 2.6 million ton in '15-16 and in '16-17 the globe is also having more or less the same area of about 13.5 to 13.7 million hectare. But in '16-17 the globe is going to have a higher production by 1 to 1.2 million ton because of the better yield because of the better monsoon in the country better crop in Pakistan, increase in area as well as better yield in US. But at the same time in China there is a major reduction in area but at the same time the yield is going to be better so their production is going to be from 5.1 million ton to 4.6 million ton. Overall global production is going to be around 22 to 22.2 million ton against the consumption of about 23.5 to 23.7 million ton in '16-17. That means the globe is going to reduce a stock of about 1.5 to 1.6 million ton in '16-17. But this major reduction will be happening only in China. In the rest of the world minus China the stock will be more or less same as that of 1st August, 2016.

- Srivatsa Rao:** So you had indicated that for the new CAPEX you are kind of waiting for some kind of clarification from states. So is this going to be a Greenfield venture or a Brownfield venture?
- Sachit Jain:** It depends on the state we go into and if it is our chosen state it will be a Brownfield otherwise it could be Greenfield. But in all likelihood it is going to be a Brownfield expansion.
- Srivatsa Rao:** In the second part in the analyst meet you had indicated that if good incentives are announced by the government you would consider investment in the garment side. Given this new garment policy is there any rethink on your strategy to infuse more money or investing in the garment business since now you seem to have kind of stabilized the business know the knack of this business?
- Sachit Jain:** We still are conservative company so we will still take our time. But yes as they say the bias is from negative to neutral and from neutral to slightly positive but it will still take some time for us to take any firm decisions and sometime means a couple of years. We are in no hurry to really jump and dive into this immediately.
- Srivatsa Rao:** There has been more improvement in this quarter as far as the garment business is concerned. I mean in terms of operational efficiencies and moving more towards the positive zone.
- Sachit Jain:** We are continuously moving to the positive zone so yes we are progressing in that area. But I have not tracked it from quarter-to-quarter. Overall I think we are continued to be fine. Before the end of this con-call we will try to get some update for you.
- Moderator:** Thank you. The next question is from Vipul Dalal from Vipul Dalal & Company. Please go ahead.
- Vipul Dalal:** The question is relating to dividend policy and what your thoughts are given that SEBI is actually announced that the first top 500 companies where market capitalization should



articulate, one. And two, markets actually give a far better evaluation two companies that have stated dividend policies, globally that's the case across the globe.

Sachit Jain:

Vipul I will just come back to your answer. But before that on the previous question, so we have some information. We are better on the garment business, its better this quarter than the previous quarter. So we are improving on that but we have still not reached a level where we can say yes we are happy with the business.

On Vipul your question, yes, I agree with you that good dividend policy and announced dividend policy is good for the company. I didn't know that we were in the top 500 companies in the country. But if we are then SEBI will force us to do that so we will come out with that. But as you can see over the last few years the trend is very clear. The trend is moving towards a higher dividend payout than what we were at. We were at 5% to 6% dividend payout for a couple of years. And the main reason for that was that at that time we had **(Inaudible)** as well as we were concerned about the level of the global economy. So at that time we felt as a company that we needed to have more cash reserves than what were required. But as we started getting more comfortable the global situation, you have seen our dividend payout start increasing. So you saw even Vardhman Acrylics which is a company come into the dividend fold recently and of course last year big dividend came out. So yes the trend is very clear but I think with SEBI dictate is there they will come out with the announced dividend policy. But that is something that the board will have to liberate and then come out. So as of now I don't have any update for you on this front. But we are moving in that direction.

Vipul Dalal:

Because I think obviously the increasing dividend payout has been very well-received by the markets and investors. Especially that's probably one of the surest signs of very good utilization of the cash that has been generated by companies.

Moderator:

Thank you. The next question is from Sandeep Baid from Quest Investments. Please go ahead.

Sandeep Baid:

Just wanted your take on cotton sowing in the country. We have been reading reports that this year the cotton cultivation is less vis-à-vis last year. So what's your take on the expected production of cotton this year?

Sachit Jain:

The area under cultivation is lower than last year. But because the monsoons have progressed well the yield is expected to be higher than last year. Overall the crop is going to be better than last year and we expect the crop to be around 34.5 to 35 million ton, so 345 to 350 lakh bales is what we expect as of now.

Moderator:

Thank you. The next question is from Amit Doshi from Care Portfolio Management. Please go ahead.

Amit Doshi:

Vardhman Acrylic, of course it's doing very well and in fact last one-year Q-on-Q margins are consistently increasing. It seems that other than crude oil prices fall there is something else to



it. Can you just briefly tell us as to what is improving so much in margins and also if you can give some guidance on the industry for acrylic fiber?

Sachit Jain:

One, I don't think the margins we can say will keep on increasing because acrylic fiber being a volatile industry it will keep fluctuating. So our belief is operating EBITDA will fluctuate between 30 to 50 crores. So in a good year it will hit 50 crores, in a bad year it will be around 30 crores and it is very difficult for us to protect exactly by quarter-to-quarter. This quarter it was good perhaps the next quarter may not be so good and all depends on the price movements at that point in time of the petrochemical chain below us. Winter was not so good this year and last year the winter wasn't so good so we had a bad performance then. This year with the rains being good expectations could be that the winter is good. So those are all speculations but I believe that the operating returns will be 30 to 50 crores. And of course since there was also a lot of cash in the company so that investment also comes in which sometime shows good performance.

Amit Doshi:

You give an answer in 30 to 50 crores in number that becomes percentage. So do you see that saturation as an....

Sachit Jain:

In absolute sense, Yes.

Amit Doshi:

So is it overall industry or for your company?

Sachit Jain:

Only for our company and there are no plans of growing the acrylic fiber business because acrylic fiber as a fiber is not really growing too much in the country and globally it's shrinking so it doesn't make sense to put in more capital in this area.

Amit Doshi:

The Indian cotton prices and international cotton prices, how far there is a gap between the two or the movements are more or less at par level?

Sachit Jain:

No, Indian cotton prices are much higher than global prices today. But the current prices are not reflective of what prices would be so these prices are reflective of only those people who don't have cotton and are forced to buy cotton at this point. So for us it doesn't really matter.

Amit Doshi:

So this is a temporary situation that the gap is....

Sachit Jain:

It is clearly a temporary situation. Otherwise over the long-term it has been seen that Indian prices are normally lower than global prices.

Moderator:

Thank you. We will take the next question from the line of Avi Mehta from IIFL Capital. Please go ahead.

Avi Mehta:

You indicated that cotton prices may come off as we move forward is what is the expectation. But how do you see spreads there because if I look at the industry that suggests a very bad situation in terms of spreads. Could you guide on that level as well?



Sachit Jain:

Clearly we are also expecting that the space that we are currently enjoying in second quarter will not remain in third quarter. But third quarter if there will also have the advantage of the older cotton going into the third quarter. So it will be a balancing in the kind of effect so it's very difficult to predict exactly where it goes. But yes fourth quarter we might see lower spreads so which is why second quarter may be much better but fourth quarter may not be as good. And again our belief is you can't look at this industry by every quarter because the margins will keep fluctuating up and down depending on seasonality, depending on inventory situations and so on. The year as a whole we will be in the range of 18% to 22%. We believe still that it will be towards the upper half of the range that's the expectation we have as things stand now. Of course as things change in the next con-call we will modify our belief. But as of now our belief is for the year EBITDA margins will remain within the range and perhaps the higher end of that range.

Avi Mehta:

But would the range also change because of the IndAS?

Sachit Jain:

No, range will not change too much. When I talk about that I look at the operating numbers so what impact will happen that's not going to be that big. So it's going to be more or less the same.

Avi Mehta:

The trend about synthetics, a) leaving apart GST but globally we see an increasing trend towards synthetics but you highlighted for cotton players it's easier to shift. Can you explain why would that be the case?

Sachit Jain:

Because the cotton spinners will have more machines than synthetics spinners would. The machines are versatile; they can be used either for cotton as well as for synthetics. For example, in the blow room because cotton require far more openings, you will have more number of machines. If you move that line to synthetic, you will have to remove some machines or bypass some machines, so it's very easy to that. Combing machines, you don't require for synthetic, so you remove them and sell them if you want to shift to synthetic. So it's very easy for a cotton company to move into blends or synthetic. Now for a synthetic company the problem would be you suddenly need combers and you will not have space for combers or you need to modify your blow room line to add more beating station and there won't be space for that. This is for that reason that for a synthetic company to move to cotton is more difficult. Plus, also to understand cotton it takes more time, to handle cotton, to learn the skills of buying cotton etc. So for a synthetic company to move towards cotton becomes difficult. But cotton company or a blended company anyway knows how to buy synthetic fiber. Synthetic fiber is available from the key manufacturers. There is not much skill is required in buying the normal synthetic fibers. As we move into specialized fibers, yes, then knowledge of which fibers are available, how to use them those things are useful. And again Vardhman as the company has knowledge of those specialized fibers and we use that in many of our special products that go into the Japanese market and so on.



- Avi Mehta:** These specialized fibers parse would mean better utilizations as we move into that you would look to completely different terms of asset returns, etc., all those metrics kind of starts changing there, right?
- Sachit Jain:** We can always dispose of supposing there is a permanent change it is very easy to dispose of the combers. You just have more space left that's all.
- Moderator:** Thank you. We have the next question from the line of Bharat Sheth from Quest Investment Advisors. Please go ahead.
- Bharat Sheth:** You said that in Q2 we expect the spread to improve and then again Q3 and Q4 going down so which is more of related with the yarn prices. So how do we see the trend I mean yarn prices, what are the reasons that recently the yarn prices have shoot up?
- Sachit Jain:** We are prices shot up because cotton prices shot up.
- Bharat Sheth:** But the yarn price is more related with the international market, correct?
- Sachit Jain:** No, globally also the cotton prices shot up, global phenomenon.
- Bharat Sheth:** We expect that globally cotton price also to come off?
- Sachit Jain:** It's already started coming off and come up. These were all temporary factors based on cotton shortages in India and some sentiments changing and some speculative activity which began to happen. So which led to the rise and then again because we don't have long-term contracts companies like Vardhman and have good customers, they are able to take advantage of such opportunities.
- Bharat Sheth:** Even with the rupee depreciation Y-o-Y we have been able to maintain EBITDA instead of improving so what's the reason?
- Sachit Jain:** Because prices have falling from last year.
- Bharat Sheth:** So you expect that prices again and Q2 will go back to what was earlier.
- Sachit Jain:** Very difficult to predict exactly. But Q2 to the prices are higher than Q1 and in Q3 again my request to all friends of the analyst and investor community, please don't analyzes business from a quarter to quarter kind of a thing. Its more capacities linked and yes for the year what the trend is going to be because very often there is a seasonality aspect coming in. Because now in second quarter and third quarter there will be the positive spin-off of the winter-wear coming in. So hand knitting yarn business of Vardhman this consumer product starts doing well so you get the benefits of that. Then also the spring summer because our fabric is primarily spring summer oriented. So again there is a benefit of that in second quarter and third quarter. There are various other factors which move. The best way to see our company is full year as a whole.



- Bharat Sheth:** This gives more insight of quarterly variation.
- Moderator:** Thank you. The next question is from the line of Manu Sehgal, individual investor. Please go ahead.
- Manu Sehgal:** My question was on Vardhman Special Steels, yesterday in the board meeting you approved increasing the authorized share capital. Is there this precursor to some fund-raising or some strategic investment coming in which I think you mentioned in the past that you would look to do some day?
- Sachit Jain:** We are always looking out for a partner, we are still doing that. We are making progress in the couple of people. But any strategic investor coming into the company is at least a couple of years off. So that's not happening anytime soon. But this is something that we have just done in preparation that in times to come if we need to raise equity to add some capital in company, there is flexibility you don't need to come back to the shareholders. AGM is coming in and therefore it was convenient to get it done but there is no firm plan as of now.
- Manu Sehgal:** I also understand that new capacity should start coming in by the next quarter which is Q3. Any further expansion plans or looking at acquisition in that space?
- Sachit Jain:** No, for Vardhman Special Steels after this expansion it's time for consolidation and bringing down debt. So there are no plans of any acquisition and no plans of any other CAPEX. It would be the end of our CAPEX plans and then the idea is to the whole effort of the company has to be to exploit this capacity that has put in and how quickly we can ramp up our capacities.
- Manu Sehgal:** Do we see EBITDA margins improving there?
- Sachit Jain:** Overall EBITDA is likely to improve.
- Manu Sehgal:** Overall EBITDA margin percentage or overall EBITDA because if the capacity goes up the EBITDA will anyways go up?
- Sachit Jain:** EBITDA margin also would go up because we are expecting cost reductions to happen with some of the CAPEX that we are making. As well as for an increase volume the fixed cost become less, even manpower cost which are semi-fixed gets spread over a bigger volume. We are expecting some power cost to come down, power rates to improve and so on. So we are expecting cost reduction. However, we are not factoring in any market situation changes just now because as of now the market seems positive but we don't know how long it remains positive. But if the monsoon is good that means tractor demand is good, also with road construction picking up across the country demand for trucks is good. With the monsoons again motorcycle demand should become good after this. The seventh pay commission money is coming in demand for cars should be good. Also the government signal that older vehicles to be scrapped which would have two positive impacts; one is of course as demand for new vehicles coming in and availability in the domestic market which would reduce our raw



material cost. So these all seem to be positive but whether they will actually turn out positive or not till those things actually happen we cannot say...

Manu Sehgal: We have been waiting for the approvals of the subsidy from the government for a long time. Do you see them coming anytime soon with the elections around the corner?

Sachit Jain: One good thing that dealing with government teaches you a lot of patience. And the Japanese 'Gaman Shinasai' which means have patience. So yes we are making progress, so we are very close to the final stages. I can now begin to hope that before December there is a chance that we can get this sanction through. But it has got nothing to do with the elections because this is all administrative now.

Moderator: Thank you. We will take the next question from Umesh Gupta from Reliance Wealth. Please go ahead.

Umesh Gupta: I couldn't register your comment on the acrylic business. What's your view on the acrylic business?

Sachit Jain: Acrylic business, what our team has done, we have built an excellent operational basis. Operational did a great job. But we have capacity limitation that our line can make only 20,000 tons so that's the capacity we can make and there is a limit to how much further cost reduction we can do. So everything depends only on the prices of our raw material and prices of the finished product. So those fluctuations will keep happening. It will depend on how much inventory you have of raw material at that point in time and how much orders that you have at that point in time. So they will always be volatile and we believe that the EBITDA absolute level will fluctuate, operating EBITDA level will fluctuate between 30 and 50 crores. There is no growth expected or planned in this business.

Umesh Gupta: What we have seen in the few of the acrylic companies have reported pretty huge margins, maybe historically high margins in last few quarters. The growth also seems to be there on the volume side while it seems value growth has been lower or it's been declining. So what's your view on that segment per se?

Sachit Jain: So Vardhman has no plans to expand its capacity. The other companies had expanded capacity earlier and there may be lower utilization earlier which is now becoming little better utilization and therefore that is going up. We don't really spend too much of our time thinking about this industry because industry is not growing and therefore we have no plans as of now to growing this business.

Umesh Gupta: But in your capacity you are operating at full capacity?

Sachit Jain: Yes, that's right.

Umesh Gupta: What would be the EBITDA per ton for some numbers can you throw in terms of EBITDA margin of your segment of that segment?



- Sachit Jain:** 20,000 tons is the capacity so you can do the math's yourself. We don't carry too much on what margins going to be because rates keep fluctuating a lot and 30 to 50 crores is a wide enough range. So we really can't predict too much about what the numbers are going to be.
- Moderator:** Thank you. We have the next question from Bharat Sheth from Quest Investment Advisors. Please go ahead.
- Bharat Sheth:** On power and fuel despite this quarter production YOY has improved so steel has come down, so what's the reason?
- Sachit Jain:** One reason of course the lower coal prices forever power plants that's one reason. Two, we are continuously investing in activities efforts to reduce our consumption of utilities, so those are continuously bearing fruits. These are two main reasons.
- Bharat Sheth:** Is there still room to improve from here on?
- Sachit Jain:** Of course there is always room to improve.
- Moderator:** Thank you. We have the next question from Manju Bhashini from Sundaram Mutual Fund. Please go ahead.
- Manju Bhashini:** If we go to the results and look at the cotton price movements, would it be possible to give us a sense in terms of how much would be normalized profit for a quarter adjusted for the inventory gain for the inventories we have?
- Sachit Jain:** That's very difficult to do all that because very difficult to say what element is inventory gain because when the prices have gone up of yarn they also go up when the cotton prices go up, so it's very difficult to do all that. We don't actually spend any time in doing that analysis, we just look at what numbers that we get and report those numbers.
- Moderator:** Thank you. As there are no further questions from the participants I hand the conference over to the management for closing comments.
- Sachit Jain:** Ladies and gentlemen thank you once again for showing so much interest in our company. We can only assure you that we will continue to do our best. We see good opportunity is in industry over the next few years. I repeat and urge every time this is not an industry to look at to the short-term because a short-term price can move up and down. We believe it's a decent to be invested in for a long time. Thank you once again and we will be there again next quarter. Hopefully by that time the transaction with A&D would be over so that part is behind us. Hopefully the next time within the con-call we would have got the final packages from the states and would have decided and will be able to announce the next CAPEX plan. Thank you so much.
- Moderator:** Thank you. On behalf of IIFL Capital Limited, that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.