



“Vardhman Textiles”

May 11, 2011



**MODERATORS: MS. SANGEETHA SARANATHAN
MR. SACHIT JAIN
MR. RAJEEV THAPAR
MR. JASMEET GILL
MR. I. J. DHURIA**



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Moderator: Ladies and gentlemen, good morning and welcome to the Vardhman Textiles Q4 FY 2011 conference call hosted by IIFL. As a reminder for the duration of this conference, all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need any assistance during this conference call you may signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. At this time I would like to hand the conference over to M. Sangeetha Saranathan. Thank you and over to you madam.

Sangeetha Saranathan: Hi, good morning everyone. On behalf of IIFL I would like to welcome all of you to the Q4 FY'11 conference call of Vardhman Textiles. We have with us Mr. Sachit Jain, Executive Director, Mr. Rajeev Thapar, CFO and Mr. Jasmeet Gill from Corporate Finance and Investor Relations of Vardhman Textiles. I would like to hand over the call now to the management for their comments.

Sachit Jain: Good morning everybody and thank you for participating in our call. This is Sachit Jain. I will just hand over to Rajeev Thapar, our CFO to take you through the numbers and after that I will share some of my views on what is happening in the industry. Over to Rajeev.

Rajeev Thapar: Thank you. As far as Q4 is concerned, as we have already mentioned that it could be slightly depressed as compared to Q3 but finally the numbers are out and Q4 is almost in line with Q3 numbers. We can see that the company has achieved turnover around 900 Crores against 1000 Crore of turnover in Q3 and turnover is lesser by 100 Crore due to transfer of steel business to our new company Vardhman Special Steels Limited under the scheme of arrangement and demerger which has happened with appointment date of January 1, 2011. So, if you see the EBITDA margin, EBITDA margin in Q4 was slightly better as compared to Q3 which is about 30% as compared to 28% in Q3 and comparative 22% in Q4 2009-10 and if you see the capital employed level it is around 5,000 Crores of rupees in Q4 which was also 5,000 in Q3 because of



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higher investment in Q3 capital employed and PBDIT to capital employed ratio is around 25% as compared to 20% in Q3.

On yearly numbers if you see that total turnover is about 3600 Crores as against 2700 Crores last year showing an increase of 31% and EBITDA margin is about 26% on a whole against 21% last year and PBDIT to capital employed is about 19% as compared to 13% last year.

On consolidated figures revenue is about Rs.4400 Crores of as against Rs.3300 Crores last year and EBITDA is about Rs.1135 Crores as against Rs.732 Crores last year and PAT before minority interest is Rs.568 Crores against Rs.302 Crores and PAT after including minority interest is Rs.525 Crores against Rs.261 Crores.

So on overall basis EBITDA margin on consolidated basis was also 26% against 22% last year and rate on capital employed PBDIT to capital employed is 20% against 15%. If you see the debt equity ratio on a consolidated basis comes to around 1.30 against 1.65 last year and the standalone basis debt equity is about 1.45 and if we exclude the current investments out of debt, then it comes to around 1.38 times against 1.80 last year.

So as far as quantitative data is concerned, production for the year 2010-11 on the whole is about 1,30,861 tons of yarn which has been produced in the year against 1,26,146 if we take yarn last year it is showing a marginal increase of 3.74%. The major increase in revenues is thereby due to price rise only. If you see because there is a huge increase in the prices of cotton as well as in yarn and on sales front if you see the composition of sale is almost like float (ph) is about close to one-third and in internal transfers is about 35%-36% and rest were domestic sales.

So external sales of the company as far as yarn is concerned are about 90,347 tons and last year also it was around the same level. If you see the grey fabrics again production is about 114 million meters against 108 million meters last year and sale is about 113 million meters against 108 million meters last year. Exports is also about 16% and internal transfer is the main composition because



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that is moving to processed fabric of about 68% as compared to 58% last year and then in case of processed fabric we see that sale is about 74 million meter last year against 60 million meters of last year's sale which is showing a substantial increase of about 24% because of better capacity utilization this year. Export component is about 35% and rest is domestic sales.

This is the overall data relating to company pertaining to the Q4 as well as for the year 2010-11. Now I will hand over to Sachit Jain for his views.

Sachit Jain:

Frankly the results of this year, as we said earlier, have been surprising us constantly. They are significantly higher than what we had anticipated earlier. Also on the pre-deal road show when we had met some of the large investors and may be some of you are on the call, we were expecting a dip in profits in Q3 and a further dip in the Q4 because we were anticipating at that time a large increase in cotton prices which happened. What we did not anticipate is the continued strength in yarn demand and tightness in yarn supply which led to a major spike in yarn prices and therefore margins continued to expand and we had some advantage of lower priced cotton earlier. It was in Q3, but for Q4 also because we could do aggressive buying of cotton before the cotton really started rising too much. So again Vardhman as a group had an advantage in terms of protecting its margin.

Also what has happened is that fabric business continued to expand. The utilization of processed fabric has gone up and what was also surprising was that the increase in yarn prices could get passed on in fabric prices and actually the fabric margins have also improved a bit. So, overall we had benign market conditions and this is despite government trying its best to hurt this industry. We had unprecedented situation for two months there were no sales in the export market. So, most Indian companies were saddled with huge stocks as we finished March end. Fortunately commerce ministry came to the rescue and then some export was released and therefore the stock built up in yarn for the good companies was not as much as it was feared but for most of the companies the stock built up was very high. So, as we began April, we begin with a massive stock overhang of yarn, which has led to depression in prices of



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yarn. So what we are saying is the last year has gone on well little beyond our expectations. This kind of results are not sustainable in the coming years and we would like to caution all of you that next year is looking like a tough year because of the major correction in cotton and therefore correction in yarn prices also.

We were anticipating this correction but we were anticipating this correction to have start to happen sometime in August or September. So, the steep correction in cotton and yarn, which happened second half of April and continued in May now, has taken the entire industry by surprise. However it seems as of now the situation that situation seems to have bottomed out and cotton has started rising again which means that it gives a cushion to the losses in inventory for some of the mills, which might have faced inventory losses. New York future, which has gone up to a crazy price of \$220 depleted to \$145, which is a major correction, still \$145 a year ago would have counted as a 150-year high. So, we are still in very high cotton price zone and that \$145 has gone up to about \$154. So, the correction process has begun.

On the investment side we had earlier announced that we had a CapEx of about 1700 Crores over the years 2011, 2012 and 2013. We have reworked those numbers a bit and that 1700 is coming closer to 1550 Crores. Out of that also we have decided to put on hold a spinning plant of 60,000 spindles which will be roughly 280–300 Crores which we will take a call on that 6-8 months down the line. As of now the committed CapEx now is about 1250 Crores and out of that 1250 Crores about 200 Crores has already happened in 2011. So we have a committed CapEx now of only a 1000 Crores in the next two years, which will take our spinning capacity to 1.01 million, a little over a million spindles and will be adding about 430 looms and adding some dyeing capacity. So that is as far as the CapEx is concerned.

The demerger of the steel business has happened so with effect March 15, the steel division became a separate company Vardhman Special Steels Limited and the demerger was effective from January 1, so which is why the Q4 results of Vardhman Textiles does not include anything of the steel division and



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Vardhman Special Steels has already declared its annual results, Q4 results that is already out in the public domain.

This is what I had to share. We are now open for questions.

Moderator: Thank you very much Sir. The first question is from the line of Dhvani Modi from ICICI Securities; please go ahead.

Dhwani Modi: Firstly if you could just share with us the listing details of the steel entity. My second question would be if you could share your current debt and cash levels and lastly what in your opinion would be sustainable margins going forward?

Rajeev Thapar: Listing of steel company is concerned, we have already applied to stock exchanges and application is under process right now. They have raised certain queries and we are replying the same. We expect that all things go well within the next 15-20 days listing may happen.

Debt is concerned right now on our books as of March we are having total debt of about Rs.2800 Crores out of which Rs.2000 Crores is long-term debt and 800 Crores is short-term debt and our current investments are concerned we are have just Rs.130 Crores as current investment which we are carrying as on March 31.

Sachit Jain: As far as margins are concerned earlier we used to say that the margins would be between 18% and 22% on a sustainable basis. Now when the prices have gone significantly higher, I think we will have to scale down because I doubt the profitability is going to shift up with the same extent. Though on a higher profit prices we have got higher margins, we believe now if the prices sustain at around these levels then the EBITDA margin will slide I guess to about 15% - 18%, something like that, I mean it is difficult to predict, let the prices settle and then we will have a better idea. But overall what we are finding is the Indian prices of cotton still are lower than the international prices and because of that the margins of the Indian players will continue to be superior.



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- Dhwani Modi:** Sir, in the last concall you have also shared that the yarn prices internationally are higher, how is that scenario panning out now?
- Sachit Jain:** Yes, the international prices had touched \$6.60 \$6.75 per kg. There were talks of \$7 a kg for 30s looms, which if you recall these prices were steady between \$2.25 and \$2.80 for the last 10 years. We are talking of almost \$7. That has now come off to about \$5, which is still a very high price but as compared to the prices of the cotton prevailing at times these prices now show lower margin.
- Dhwani Modi:** Thank you very much. I will come back if I have any questions.
- Moderator:** Thank you. The next question is from the line of Abhilasha Satale from Techno Shares and Stock. Please go ahead.
- Abhilasha Satale:** I would like to know your current quarter inventory and the consequences last time you mentioned that you are not stocking the quarterly inventory for a longer time because of high cotton prices. Now that cotton prices coming down what is your cotton procurement strategy?
- Sachit Jain:** First of all I think there is some misunderstanding. We have never said because of high cotton prices we are stocking lower. It is depending upon the quarter that we are talking about the stocks would be lower or higher. So normally as of March 31 we have about 6 months stock of cotton, 6-8 months stock of cotton but normally that is something that we decide every year.
- Abhilasha Satale:** Because even in the last concall you were mentioning that we are very slow on our cotton procurement that is what made us think. Any ways currently you are holding 6-8 months of cotton inventory?
- Sachit Jain:** Normally we hold between 6 and 8 months stock of cotton as of March 31.
- Abhilasha Satale:** And what could be the average cost of that?
- Sachit Jain:** This is something that we normally do not comment on.



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- Abhilasha Satale:** But we can assume that it must be lower than the market price because you have been averaging out at quite a reasonable pace
- Sachit Jain:** I think it will be difficult to assume that but normally because we bought at higher prices also and the prices have corrected a lot, so, most spinning mills are sitting on large inventory losses. In our case it will be minor if at all, so we are almost, difficult to say exactly, but we are not having any major losses in inventory.
- Abhilasha Satale:** In case of yarn how much the inventory you are holding, you said, given the inventory piling up happened during the quarter?
- Sachit Jain:** The inventory built up which happened in March 31, will get liquidated by the first quarter. All of that was already contracted.
- Abhilasha Satale:** Yes, that is mainly on export side?
- Sachit Jain:** Primarily because of exports, all that was already contracted. We had contracted to the customers that if the exports are allowed we will ship by March 31, if not we will ship in April-May. So almost all the inventory will be back to normal by end of first quarter.
- Abhilasha Satale:** What is the utilization level on the 55000 spindles you have added at Satlapur?
- Sachit Jain:** Satlapur we have added only about 12000 spindles as of March 31. 54000-56000 spindles will get finished by about second quarter.
- Abhilasha Satale:** Okay, thank you Sir. Sir, what is the volume guidance in FY12?
- Sachit Jain:** I am sorry. That is Mandideep's expansion. Satlapur expansion has not yet begun; only construction has begun.
- Abhilasha Satale:** Okay, Mandideep it has added around 12000 spindles?
- Sachit Jain:** Yes, out of 56000 spindles, the remaining will get added by the second quarter. Satlapur should get added- 60000 spindles by about March.



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- Abhilasha Satale:** Sir, this expansion is deferred?
- Sachit Jain:** No, this is not deferred. The construction has begun. There are another 60000 spindles that we were planning in Budhni, composite mill. That we have postponed the decision and we will take a call on those six months later.
- Abhilasha Satale:** Okay, so major volume increase will come from Mandideep in FY12?
- Sachit Jain:** Yes. Again that will not be major because it will finish only by second quarter; we will get second half full performance. 20,000 spindles are getting added in Baddi, which will also happen by the end of first quarter. So the second half we will get the full performance of the 20,000 spindles. So roughly about 70,000 spindles we will get performance in the second half.
- Abhilasha Satale:** Fine sir. Thank you.
- Moderator:** Thank you. Our next question is from the line of Ranjit Sivaram from B&K Securities. Please go ahead.
- Ranjit Sivaram:** In your initial statement you had told that you had put a hold on the spinning mill expansion, so I just wanted to know whether is it because you feel that the current margins in this yarn segment will come down, so it does not make business sense to increase more spindles and another question I have is in the cotton scenario, this introduction of Ball worm two (ph) want to see the yields of cotton going in, increasing and because of that the surplus supply and so the cotton prices coming down?
- Sachit Jain:** We have a raw material expert also here he will answer the second question. But for the first question, if you recall, if you were there in the earlier concall, we were saying that we were waiting for the TUFS clarifications to come in. Now the TUFS clarification has come in, the TUFS is now no longer as attractive as it was earlier and we said even then that we will take a call on the further expansion of yarn waiting on the TUFS. So we are confident of the profit this spinning sector but since we are adding large capacity current year is in a state of turmoil because of the price's correction and lots of companies are



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going to be in distress which will also enable a possibility of an acquisition as times happen because most companies are setting a large inventor losses and Vardhman because of its ability to raise cash, we could look at an opportunity that comes in, so we are open to that and we have not postponed anything. We have just postponed the decision on this core projects about 6-7 months. So we will take a call again on this investment by about December.

Ranjit Sivaram: And Sir in the TUFs document they have mentioned that they have increased the interest subvention by 5% if you have an additional loom or other facility, so what makes TUFs unattractive?

Sachit Jain: No, as just a pure spinning business it becomes less attractive. If you are adding spinning along with value added products then it becomes attractive, but they have removed certain parts on spinning project which were earlier under TUFs are no longer under TUFs. The certain investments are now out of TUFs, which were earlier part of TUFs.

Ranjit Sivaram: Okay what is the major thing, which has impacted?

Sachit Jain: Some of the normal plant and machinery like the SAP implementation, computers, and R&D equipment, electrical insulation all that have moved out of, only in other textile plant.

Ranjit Sivaram: Okay, thanks and my second question sir?

I. J. Dhuria: Going forward definitely is going to improve the yield level and there will be less expense on the pest control if everything goes well with the weather condition.

Ranjit Sivaram: Okay so in that case do not you feel the cotton price is going down?

I. J. Dhuria: Yes, in the country it will all depend upon how the government policy is going to be there on the export of raw cotton.

Sachit Jain: Next year we are all predicting a bumper crop in India and globally and we are predicting that the cotton will come down. Already the future of New York



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future of December is significantly lower than the current New York future. So we had been predicting that cotton would come down. Only thing is we could not predict that it will come down in April itself, which was a shock.

Ranjit Sivaram: Okay sir in that scenario the yarn prices, the disparity between yarn and cotton prices if we are able to maintain that we will be able to maintain the same margins?

Sachit Jain: Margins we will not be able to maintain in terms of percentage, because we are getting a much higher level of prices, a 15% margin at a price of \$2.60 and a 15% margin at the price of \$5 are very different, but that is only thing. Otherwise absolute margin we are okay.

Ranjit Sivaram: Thank you Sir.

Moderator: Thank you. The next question is from the line of Bhavin Chedda from Enam Holdings. Please go ahead.

Bhavin Chedda: Couple of questions on the industry, the latest ministry has come out with the estimates of the cotton production which is now estimated lower at 30.5 million bales, I think original estimates was 33, then the second estimate was 31.5 and this is the third estimate which has come down to 30.5, so what are your views on the cotton production?

Sachit Jain: It will be between 31 and 31.5. So, again if the government always tries to estimate a higher crop earlier so they can export cotton and then as the cotton progresses they realize that the profit is lower. The industry was along saying that the crop is lower, then what they are estimating and that is why we are saying please allow graded exports, watch the crop coming in and then export. But government decided to export everything in the beginning of the year, which created unnatural situations of panic, which raised the prices significantly and which has hurt the spinning industry this way.



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Bhavin Chedda: Sir because I think globally the Indian cotton estimates are still at 33 which means even if they come at 31, 31.5 are we seeing a global tightness for a second year in a row?

Sachit Jain: I do not think we are expecting 33 globally.

Bhavin Chedda: Okay, I think when I last saw in January estimates India was standing at 33, I do not know if there are any revised figures?

I. J. Dhuria: I think the number will be around 31.5, when the final number will come it will be around 31.5. It will be near to CIV estimates, which is about 31.2.

Bhavin Chedda: Okay and regarding your debt number 20 and the debt gross debt number is it standalone or consolidated?

Sachit Jain: Standalone basis.

Bhavin Chedda: This is standalone basis, what is your consolidated number?

Rajeev Thapar: 2944 Crores.

Bhavin Chedda: 2944 and what will be consolidated cash?

Sachit Jain: About a 100 Crores, almost the same.

Bhavin Chedda: Consolidated cash is 100 Crores?

Sachit Jain: 130 Crores

Bhavin Chedda: 130 Crores, okay. Sir after this sharp correction in cotton and yarn, what you are saying is that your margins in absolute terms have not declined in a major way only percentage terms it will decline, right? The spread between yarn and cotton is it intact or has that reduced? The spread between the yarn and cotton prices which used to be there 3 months back after the correction both in the cotton and the yarn price...?

Sachit Jain: Gone down, this side has gone down if you look at market prices.



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- Bhavin Chedda:** No, what I am saying is depending on your inventory, because your inventory of cotton...
- Sachit Jain:** Our inventory will clearly go down because cotton is already bought and the prices have gone down, so in the margin scale you are going down, so earlier we were expecting a very good first quarter and a very good second quarter the first quarter also will be a little lower than what we were estimating earlier, the second quarters will be significantly lower than estimated earlier. Clearly when the prices drop from \$6.50 to \$5 that has gone up straight from potential margin.
- Bhavin Chedda:** Okay and sir what will be your cotton inventory procured till March 31?
- Sachit Jain:** We do not normally declare that. We said that our inventory on the March 31 normally between 6-8 months stock of cotton.
- Bhavin Chedda:** 6-8 months, so it would be in that range only?
- Sachit Jain:** It would be in that range. Just for the benefit of all of you, there are two reasons why we stocked cotton. One is of course the price issue that later on price may be more expensive and so on we buy cotton in the season but more important than that is the quality of the cotton that we need for our superior products is not available later. Even now our raw material department is having a very tough time when they are out in the market to buy the good quality cotton. So the is question is not just of price, it is also availability of good quality cotton with the right length, strength, might.
- Bhavin Chedda:** Thanks a lot sir.
- Moderator:** Thank you. The next question is from the line of Paresh Jain from Max New York. Please go ahead.
- Paresh Jain:** Just wanted to check on your CapEx plan, just need some clarification out of this 1250 Crores, this was for adding 56,000 of spindle in MP and 20,000 spindle in HP, right?



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- Sachit Jain:** Another 60,000 spindles in Madhya Pradesh and 430 looms and a second line of processing and dyeing capacity going on.
- Paresh Jain:** Okay, this 60,000 spindles that was the part of 1550 crores CapEx right?
- Sachit Jain:** There were three projects of around 56,000 to 58,000 spindles each. Out of their one of them will get commissioned by second quarter of this year one of them will get commissioned by March end this year and one of them is currently on hold we will take a decision on that by another six months from now.
- Paresh Jain:** The one that is put on hold that is not the part of the 1250 Crores CapEx plan, right so the 1250 will actually include only the 76000 spindles?
- Sachit Jain:** No it is 76 plus 60 its 126.
- Paresh Jain:** So that 56 that one is in MP that is expected to come by March 12?
- Sachit Jain:** One of them will get completed all three were in MP. All three in different existing units one in Mandideep which will finish by second quarter, one in Satlapur which will finish by March this year March 12 and the one in Budhni in our composite mill is going to be relooked at six months from now.
- Paresh Jain:** And the Mandideep one was for 56000 spindles? Out of which 12000 have already come and Satlapur one that is for? And the one in Budhni hp that is 20000 and that is already come?
- Sachit Jain:** That will also happen by starting from July to basically second quarter.
- Paresh Jain:** So basically three projects are on and one project has been put on hold, again the Budhni one?
- Sachit Jain:** I will not say put on hold we will relook at it, we can say put on hold for six months down the line.
- Paresh Jain:** Thank you Sir.



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- Moderator:** Thank you. The next question is from the line of Dhvani Modi from ICICI Securities. Please go ahead.
- Dhwani Modi:** Sir if you can just outline the debt repayment schedule as well because I believe that based on the last interaction I had large part of your repayments will be coming in 2014-15 so anything major outline for 2012 and 13 if you could tell?
- Sachit Jain:** 16. It is for 2015 and also 16.
- Jasmeet Gill:** For the next two years Dhvani our date repayments are only about 150 Crores each of the year.
- Dhwani Modi:** Thank you.
- Moderator:** Thank you. The next question is from the line of Shaukat Ali from Quantum Securities. Please go ahead.
- Shaukat Ali:** Could you throw some light on the Nisshinbo JV the garment business what is the current capacity and how we are going to pan out from here?
- Sachit Jain:** The current capacity on a full operational basis is 1.2 million shirts per year and that we will be adding some capacity and take it to 1.8 million shirts but just now the production has begun and the quality coming out is good productivity levels are still low because we have started with fresh workers. Workers skills will be upgraded every month will become gradually better we hope to be in full production reaching the capacity of 1.2 million by March the last quarter.
- Shaukat Ali:** Thank you Sir.
- Moderator:** Thank you the next question is from the line of Sumant Bbutoria from Jet Age Securities. Please go ahead.
- Sumant Bbutoria:** My question is more on long-term prospecting if could talk a little bit about the Indian Spinning Industry versus the Chinese Spinning Industry what kind of capacity addition what kind of future outlook you feel in the two countries?



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- Sachit Jain:** Future out look we are convinced. We remain convinced about the strength of India for the following reasons; 1) Indian cotton is continued to grow in yield and in area so we expect that Indian cotton will continue to remain attractive compared to global prices. 2) China which is a very largest spinner they will continue to be dependent on imported cotton there will be shortage of cotton cultivated in that country plus shortage of labor and the cost of labor are going up substantially in China and also the threat of the Chinese currency eventually appreciating faster than the Indian currency keeping all those factors in mind and domestic consumption of China increasing because China as we hear from reports is trying to focus more on domestic growth and increasing per capita consumption within the country keeping all those factors in mind we are very hopeful of the Indian textile industry with the next 10 year period. There will be 1 or 2 years of hiccups here and there that cannot be predicted which year would be a hiccup.
- Sumant Bbutoria:** Could I infer that cotton yarn spinning industry would be in a much better position than that say the synthetic yarn or any other textile industry?
- Sachit Jain:** It could probably be better but again these fiber keep switching for one to the other in one track the other because one sector is continued to far more profitable than the other then people can switch capacity to that one.
- Sumant Bbutoria:** Right the demand for spinning yarn is it possible for the demand to come down as well?
- Sachit Jain:** Clearly if the prices double then the possibility on yarn demand to shrink a bit can happen.
- Sumant Bbutoria:** No I am not speaking about doubling I am saying in the normal year period.
- Sachit Jain:** Normal year demands have come down looks very low because in India if you look at Indian consumption also hour per capita consumption is about 4 kilos. The Indian consumption is still going to continue to increase over the next 10 years. It is expected to double to about 8 kilos.



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- Sumant Bbutoria:** Right sir another quick questions here on your power are you seeing lower machine power rate and do you expect power cost to fall in the coming year?
- Sachit Jain:** Currently we are seeing lower machine rate yes but then we are buying the power also but power tariff is gone up in Punjab it is expected to go up in Himachal and also expected to go up in MP. So one factor to reduce cost and one factor to increase overall on net basis I think power costs are going to increase.
- Sumant Bbutoria:** So at this level is your prior power prices stable, because the machine power rates have also fallen so referencing on the net is your machine power rates stable.
- Sachit Jain:** It would be going up I am saying.
- Moderator:** Thank you. The next question is from the line of Vivek Kumar from Anand Rathi. Please go ahead.
- Vivek Kumar:** Sir Can you show some light on your fabric business like what kind of future you are at looking forward?
- Sachit Jain:** Fabric I think the future is very attractive because there are not too many good mills of high quality woven fabrics and as China as I said the cost in China become higher the relative competitive advantage China had over India will disappear. Already we are finding that it is for this reason that as the yarn prices increase because the fabric prices could also increase and as the utilization has improved our costs have also come down that is why our margins were gone up and as we add the second line of processing in Budhni where we already have the infrastructure in place the incremental per meter capita cost is going to fall for the division as a whole. Also we have just put in our liquid ammonia treatment facility so all that CapEx has already gone in. The current trials are going on. The fabric has shown good quality but currently there is no business hardly any business coming out from there because it was a specialized product will take some time but all those costs have already factored in, so I think in times to come single only improve in that segment also, so more and more



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specialized areas, a better utilization and lower cost so I am very hopeful on our fabric division.

Vivek Kumar: So what kind of volume growth you are expecting for two years in fabric business?

Sachit Jain: Fabric business we expect to cross 100 million meters of process fabric.

Vivek Kumar: Which are the major countries right now you are exporting like your focus on US and Europe and some other areas?

Sachit Jain: Our exports are primarily to China as far as yarn is concerned, Bangladesh, Japan these are our main markets, sometime Mauritius and Korea these are our main markets South America is another market that we are focusing on as far as yarn is concerned. As far as fabric is concerned the exports are mainly from Bangladesh and some to Sri Lanka.

Vivek Kumar: Any plan to further diversify in other countries, further plan to expand in other countries, exporting to some other market, global market, Latin America US Europe some others?

Sachit Jain: As I said, we are already for our yarn we are already fabric just now Latin America looks a bit difficult because it is too distance, Sudan could be another market in times to come that for our fabric division.

Vivek Kumar: Right. Thank you.

Moderator: Thank you. The next question is from the line of Abhilasha Satale from Techno Shares and stocks. Please go ahead.

Abhilasha Satale: Your tax rate has gone up during the quarter up to 19% what is the reason and what is the tax rate expected in FY'12?

Sachit Jain: For the quarter you are talking of tax. For the quarter I think it is lesser as compared to the third quarter.



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- Abhilasha Satale:** The tax rate has gone down from say 30% to 19%?
- Sachit Jain:** The tax has gone down because in Q3 we realized we have under budgeted for our tax, because as I said profits were way higher than what we had anticipated and we are under budgeted our tax, so there was a higher tax provision in Q3 to cover up for the shortage of our profits so please don't look at that quarter-to-quarter.
- Abhilasha Satale:** Okay so for FY'12 we will be in normal tax bracket?
- Sachit Jain:** Because the areas of tax concessions are very small, they are only in Baddi and that too the full tax exemption is already now gone out for most of the units. We are only in 30% tax saving zone in two of the units but VSM – the unit in we added 20,000 splindles that is a smaller unit there we will now be in full tax free zone but it's a smaller unit so on an overall basis the tax rate actually would be going up.
- Abhilasha Satale:** Thank you.
- Moderator:** Thank you. Our next question is from the line of Vivek Kumar from Anand Rathi. Please go ahead.
- Vivek Kumar:** Hello this is Swetha here. I just wanted to know what would be our spindle capacity for FY2011?
- Sachit Jain:** FY2011 was about 880000 spindles 890000 spindles.
- Vivek Kumar:** What would be the total addition for FY'12 and FY'12 lending capacity?
- Sachit Jain:** FY'12 will be around 1.01 million spindles little over a million spindles, this is year ending figure it is not average.
- Vivek Kumar:** Okay FY'12 right? What would be the utilization level?
- Sachit Jain:** Utilization is about 95%.



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- Vivek Kumar:** So government has allowed yarn exports right for this year, so is there any limit on that or any regime of limits particular limit you can export or it is not yet decided still?
- Sachit Jain:** 40 million kg but the limit is still not I mean is still something that has to be enforced fully, list of all the contracts so that is happening.
- Vivek Kumar:** What would be the value like how much would be the limit?
- Sachit Jain:** I think its 845 million KB, but they have not added fully the full capacity I mean there is still unclear currently exports are going on so they will take a call little later in the year.
- Vivek Kumar:** Sir what would be your cost per spindle if you could tell us?
- Sachit Jain:** Cost per spindle for the new capacity is going to be about Rs.40000- Rs.45000 per spindle.
- Vivek Kumar:** Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Nilesh Doshi from Techno Shares and Stocks. Please go ahead.
- Nilesh Doshi:** Are you seeing any slowdown in demand of yarn from China currently?
- Sachit Jain:** Currently in the last week or two I mean last month I think there is no point in talking about that because normally when prices correct there is an afferent slowdown of demand, because everyone is waiting for the prices to fall further before they start booking, but if you say two months before there was no slowdown in demand. In last one month I think people are all waiting for the prices to settle before they start booking your contracts.
- Nilesh Doshi:** Sir we don't really foresee any kind of major change in the...?
- Sachit Jain:** We are not foreseeing that.



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- Nilesh Doshi:** How about the domestic demand?
- Sachit Jain:** The same I think everyone is waiting for the prices to settle and since they all know that there is inventory over hand with the spinners everyone will extract a pound of flesh.
- Nilesh Doshi:** Is that the reason are we looking at postponement of our decision for expansion?
- Sachit Jain:** No. See this is the combination of various factors; 1) Clearly our profits in this year are lower than what we were earlier anticipating. It is still decent I am not seen the profits are bad but compared to a 525 Crores net profit anything looks bad after that. So that is one. 2) The TUFs earlier was 2 plus 8 which was extending to 10 years end-to-end has now become 2 plus 5 is 7 years end-to-end so clearly the TUFs is not as attractive as it was earlier and because of the high cost of cotton our working capital required going to be higher than earlier so we have to space out our expansion.
- Nilesh Doshi:** With the highest price of quarter we have seen in the current year and in spite of that good ROC of about 20% how does TUF would really matter even if your cost of capital is 8% to 10% on the long-term?
- Sachit Jain:** Please understand one thing that this is a combination- this profitability is a combination of several factors which includes inventory gains right buying of cotton which we cannot hope to be able to do that year after year so we have to look at normal kind of profit and a TUFs was clearly in advances. If TUFs is not there we will continue to still expand but we may do it one year later or we may expand through some acquisition we are always open to that that unfortunately we have not got a good acquisition candidate so far.
- Nilesh Doshi:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Sumant Bbutoria from Jet Age Securities. Please go ahead.



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Sumant Bbutoria: Sir my question is on the average cost of your funds what could be the average cost of fund say in FY'11 and then FY'12 if you can comment on that?

Jasmeet Gill: FY'11 we would have an average cost of funds of about 7%. I am including working capital dated at about 8% to 8.5% and USS long-term debt at 6% six quarter so at the hindsight this year we are seeing prices rising up interest rates apart from that interest rates subvention which is available to the textile companies or and to exporters is no longer there so there is an increase in the working capital cost by about 2% so we will see our working capital cost of 10% and USS again all the new expansions which are coming up will be under the restructured TUFs where the average rate of interests is on the higher side since about 50% of the investment are not covered under TUFs so we will see a net rate of about 7 to 7.5 on our TUFs long-term date so we are talking about 8.5% cost for FY'12 as against about 7% last year.

Sumant Bbutoria: Okay and these TUFs loans are they floating rate or fixed rate loans?

Jasmeet Gill: More than 90% would be floating.

Sumant Bbutoria: Thank you.

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

Sachit Jain: Thank you all once again for participating in the call. As I said earlier this year was we were lucky and the year gave us very good results. We are not anticipating this kind of performance again so clearly there will be a drop in profits. First quarter we are well placed, second quarter onwards because of the drop in yarn prices the margins will be squeezed; however compared to second quarter last year we will be in the similar ballpark figure, may be little higher may be little lower. Third and fourth quarter will depend on the new cotton crop, but clearly the kind of advantage we saw last year will not be there so there will be a drop in third and fourth quarter also in this year third and fourth quarter. Overall the business remained strong there is good demand and the company's strategy on continuing in value added products has come to a rescue



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which is why our margin will continue to remain superior to the rest of the industry and the company's policy of liquidity having liquidity of able to buy cotton if required has come in handy again this year and we will continue to have that policy of being able to has financial ability in terms of buying our current assets and of course we will continue to be accessible to investors and shareholders as always.