““Vardhman Textiles Q4 FY12 Results Conference Call”

May 11, 2012

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Moderator Ladies and gentlemen, good day and welcome to the Q4 FY12 results conference call of Vardhman Textiles 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 at the end of today's presentation. Should you need any assistance during this conference, please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Avi Mehta from IIFL Capital Limited. Thank you and over to you sir.

Avi Mehta Hi, good morning everyone. On behalf of IIFL, I would like to welcome all of you to the 4Q FY 12 conference call of Vardhman Textile. From the company, we have with us Mr. Sachit Jain, Executive Director, Mr. Rajeev Thapar, CFO and Ms. Jasmeet Gill from Corporate Finance and IR. I would now like to hand over the call to the management for their comments. Over to you Sir.

Sachit Jain Good morning everybody and thank you for coming to participating in the Vardhman Textiles conference call. As you know, last year has been a pretty big disaster starting from the first quarter, where we had a loss and of course, 2nd Quarter onward started recovering a bit so we still had a loss in the first half. So since it has been a bad year, I will ask Jasmeet to take you through the results but anyway I am here through the call and I'll be available for all questions.

Jasmeet Gill Good morning everyone. We last spoke that the numbers that we go through would be put up on the website. So all the numbers which will be there in the annual report would be put up on the website after the analysts call an otherwise, I will briefly take you through the financials and the quantitative data.

To begin with in sales, yarn business there was decrease in the sales which went down in the 4th Quarter to 799 crores from 828 crores in the previous quarter. This was in the immediately preceding year the same quarter, the number was 779. Fabric business again there was a slight drop the sales for the last quarter 2011-12, are 309 crores as against 320 crores in the immediately preceding quarter. The reason for the decline in sales is the difference in the exchange rate. The average exchange rate was higher in the 3rd Quarter than it was in the 4th Quarter; there was slight decline in the realization on account of these segments. Steel business is no longer a part of the company. So in both these quarters there was no revenue from the Steel business. The total sales revenue, including the unallocated portion is 1144 crores in the 4th Quarter as against 1186 crores in the previous quarter immediately preceding quarter. If I exclude the inter-segment revenue that top line is 939 crores for this quarter Q4 '11-12 as against 984 for the immediately preceding quarter. If you look at the annual total numbers for the year, the sales for yarn has gone up by about 15% to 3369 crores in '11-12 as against 2929 crores in 2010-11 and similarly the fabric business turnover has also increased by about 12% to 1226 crores from 1094 crores in the preceding financial year. Then we also had steel was also the part of the company in 2010-11 at least for the first three quarters. There was revenue of 281 crores which was from the steel division and including the unallocated we have 7% increase in the gross turnover at 4742 crores for 2011-12 as against 4439 crores for 2010-11. This the previous year also included 280 crores of steel turnovers which were not there in ‘11-12. So actually the overall turnover is higher than 7% increase. If we reduce the intersegment revenue the total turnover for 2011-12 is 3918 crores as against 3607 crores for 2010-11, showing an increase of 9%.

Moving on to the PBDIT, yarn business showed a big fall in the PBDIT as compared to the previous year. The absolute PBDIT for the yarn business for the 4th Quarter ‘11-12 was 117 crores as against 124 crores for the immediately preceding quarter. This was 209 crores in the similar quarter last financial year. The gross margin dropped to 15% in 4th Quarter ‘11-12 as against 27% in 4th Quarter 10-11. Immediately preceding quarter had a similar margin of 15% on the fabric business, 4th Quarter ‘11-12, the PBDIT was 58 crores as against 52 crores in the immediately preceding quarter it was 58 crores in the similar quarter for the last financial year. So there was not much change in the gross margins in the fabrics which wanes between 16% to 19%. The total PBDIT for the 4th Quarter ‘11-12 for Vardhman Textiles has come out to be 178 crores as against 180 crores in the immediately preceding quarter. This total PBDIT was 267 crores in the similar quarter for Q4 2010-11, showing a decline of 33%. This is mainly on account of the fall in the margins of the yarn business. The EBITDA to sales for the 4th Quarter has come to 19% for ‘11-12. It was similar in the previous quarter and for the similar quarter in the previous financial year these margins were 30%, so you can see that there is a big fall and the EBITDA for the year as a whole for 2011-12, the yarn business had an EBITDA of 352 crores as against 742 crores in 2010-11, a fall of 53%. The gross margin also went down to 10% in this year as against 25% in the last financial year.

Fabric business showed a slight growth. It had an EBITDA of 182 crores in ‘11-12 as against 152 crores in 10-11, showing an increase of 12% and the gross margin remained constant at 15%.Company as a whole, the total PBDIT went down to 559 crores in ‘11-12 as against 930 crores in 10-11, a drop of 40% and the gross margin declined to 14% as against 26% last year. The PBDIT segment wise revenue is already there on the published results. The total PBDIT for Q4 is at 118 crores for ‘11-12 as against 126 crores for the immediately preceding quarter. This was 221 crores in Q4 10-11 and the margins have gone down to 13% from 25% in the last financial year in Q4. The year as a whole PBDIT is 326 crores as against 744 crores in the last financial year. The decline of 56% and the PBDIT to sales has come down to 8% from 21% in 2010-11. Capital employed of the yarn business, it has come down to about 10% in Q4 of ‘11-12 and absolute figure of 2876 crores. It was 13% in the immediately preceding quarter and 21% in the Q4 10-1. The ROCE, I am talking about in the fabric business the ROCE is slightly lower at 18% in Q4 ‘11-12 as against 20% in Q4 10-11. In the immediately preceding quarter it was 15% for Q3 ‘11-12. The total capital employed of the company is 4831 crores as against 4679 crores in the immediately preceding quarter and Q4 10-11 the capital employed was 4947 crores, so the return on net worth has gone down to about 10% from 18% in the last financial year. If you take a look at the consolidated figures, the revenue for '11-12 is at 4453 crores as against 4699 crores in 10-11.

The consolidated PBDIT has come down to 673 crores as against 1136 crores. PBDIT is 400 crores in this year consolidated as against 871 crores in the previous financial year. The largest increase was seen in the interest expense this year in the company, which went up to 174 crores in '11-12 as compared to 108 crores in 10-11. The primary reason was that the average long-term debt of the company was higher in financial year 2011-12 plus there was increase in the interest rate across banks so considering that most of the term debt is on the floating rates of the interest. The average cost of funds for the company also increased. An additional factor was the textile industry used to get an interest rate subvention on working capital on the export credit which was done away with '11-12. So overall, we had a higher cost of funds. And the PBT has come down to 227 crores in '11-12 as compared to 755 crores in 10-11, leading to a profit after tax consolidated of 160 crores as against 567 crores in the previous year. The EBITDA margins have consolidated has come down to 15% from 24% last year. The ROCE is 8% against 18% last year. Consolidated debt on the books is 2549 crores as against 2783 crores in 10-11 and the debt equity consolidated has come down slightly to 1.16 times on a gross basis in 2011-12 as against 1.23X in 2010-11. The stand alone is debt equity ratio for the company Vardhman Textile is at 1.30X in 2011-12 as against 1.45X in 10-11. And if we look at net debt equity ratio in standalone net debt equity ratio has come down to 1.1X in Vardhman Textiles so there is quite a fall in the debt equity ratio.

Moving on to the quantitative data, reduction in yarn in Q4 '11-12 was 35145 metric tons as compared to 34754 metric tons in the immediately preceding quarter. The sales were 37336 tons in Q4 '11-12, as against 36581 metric tons in the immediately preceding quarter. The breakup of sales remains the same. One third goes to export, one third was into unit transfer and one third was domestic sales. The average realization as we spoke about earlier has come down from about Rs. 216 per ton to about Rs. 200 per ton in this quarter, they say, because of the rupee exchange rate. There is an average fall of about from last year in Q4 10-11 the realization was more than Rs. 250 per ton so there is a fall of about 20% in the realization. The raw material price was also lower in Q4 '11-12 as against Q4 10-11 the decrease was about 14%. In Q3 and Q4 '11-12 raw material price was almost similar there was not much change. Grey fabric the utilization was about 93 to 94% in both the quarters. The production was 280 lakh meters in Q4 '11-12 as compared to 276 lakh meters in the immediately preceding quarter. The sales were 290 crores in Q4 '11-12, as against 299 crores in Q3 '11-12. Out of which about 10% was exported 72% was consumed in-house and the remaining was domestic sales. The average realization in grey was almost similar in both the quarters Q3 and Q4 '11-12 about Rs. 76 a meter. The processed fabric utilization continued between 88 to 89%. The production was 200 lakh meters in Q4 '11-12, as against 212 in Q3 '11-12. For the similar quarter in the previous financial year the production was 190 lakh meters. Sales were at 210 lakh meters in Q4 '11-12 similar in the immediately preceding quarter and for Q4 10-11, the sales was 200 lakh meters out of which about 35% is exported and 65% is sold domestically to export houses and likes. Realization again showed a slight decline which came down to about Rs. 119 lakh per meter as against Rs. 123 per meter in the immediately preceding quarter. The realization in Q4 10-11 was about 127 lakh meters so there is a slight fall in the realization. For processed fabric if you look at the year as a whole. The utilization was 84% in FY 12 as against 83% in FY 11. The production was similar at 750 lakh meters in both the financial years, the sales in the financial year 12 was slightly higher at 760 lakh meters as against 730 lakh meters in financial year 10-11. The proportion of exporter in the financial year 12 has gone up to 34% in processed fabric this year as compared to 22% in FY 10-11. Rates have shown overall they have shown an increase in financial year 12, as compared to FY 11. Coming back to the yarn quantity for the year as a whole the production has increased by about 5% to 1,35,443 metric tons as against1,28,294 metric tons this is an increase of 5.5%. The sales for yarn were 144,130 metric tons in FY 12 as compared to 140,384 metric tons in FY 11. One third is exported, one third is internal consumption and one third domestic sales, the overall rates in FY 12 and FY 11 were average rates were similar at about Rs. 215 per ton and the raw material price has shown an increase in FY 12 by about 28% major increase in the raw material prices. That is all about the quantitative numbers.

Sachit Jain Little bit on the outlook for this year. Clearly, we are out of the woods the disaster of last year is not going to be repeated and we believe that the trend seen in the 3rd and the 4th quarter should continue in this year as in things stand now. Two opposing factors, one positive is the rupee depreciation for which should lead to a slightly better revenue and earnings as we go ahead. The negative factor is still global economy uncertainty so if export gets hit a little bit we would also get affected. The other positive factor which could continue to support is that Chinese government is buying cotton at a fairly high price domestically so on the average Chinese spinners are getting cotton at a higher rate than the Indian spinners, which means that demand for Indian yarn from China will continue to be reasonably strong if the economy remained like this. Of course if the collapse of Europe happens then that is anybody's guess. Hopefully, interest rates will have partly 0.5%, 0.25% has already come down as far as the banks has passed on, and maybe another 0.25 to 0.5% would come down during the latter part of the year so that would be a positive. We are now open for questions.

Moderator Thank you very much. We will now begin with the question and answer session. Ladies and gentlemen, if you wishes to ask a question you may press “*” and “1” on your touchtone telephone. Participants are requested to use only handsets while asking a question. Anyone who wishes to ask a question may press “*” and “1” at this time. We have the first question is from the line of Dhvani Modi of ICICI Securities, please go ahead.

Dhvani Modi Good morning, sir. And thanks for the opportunity. I just wanted to get some sense on your capacity addition plan in terms of the spindles and the looms going forward?

Sachit Jain Okay one as we shared last time also we are in very difficult situation as far as the customers are concerned in our yarn business and our fabric business we are very, very tight on capacities and our customers and we have to ration products for our customers. We are under pressure to increase capacity. We in this year we will be commissioning the Budni, the second line of processing where by June onwards some production will start coming in by September it will be fully commissioned then we have the Budni spinning and the spinning plant coming up which will all be commissioned by January to March next year and weaving of Budni also is coming in from starting from July up to March will be commissioning that and there is a modernization part. Overall it is about a 1000 crore of investment coming up in the current financial year. We have still put on hold 60,000 spindle spinning mill in Saltapur 5. We have got approval from the banks but we have still put it on hold because we are still waiting for the economic environment globally to start improving.

Dhvani Modi Sir, I also wanted a sense on how the garments business is shaping up?

Sachit Jain The garments is still not doing as good as it should be but gradually now stability and the workforce is now beginning to improve and some customers stability is coming in, in terms of export orders from Japan so we expect this garments business to be better this year. Last year we lost about 4 crores roughly out there but the things are looking little better than what they were.

Dhvani Modi Sir, lastly if you could throw some light on your outlook in terms of yarn realization both domestic and international?

Sachit Jain Very difficult to predict the realization moving up but currently the spreads between yarn prices and cotton is reasonably good so currently the margins are reasonably okay which is why the EBITDA to capital employed figures would be back in a range of about 14 to 18% overall at group and as a consolidated basis be a little high 15% to 20%.

Dhvani Modi Thank you so much and all the best.

Moderator Thank you very much. Our next question is from the line of Yogesh Bhatia of Athena Investment Securities, please go ahead.

Yogesh Bhatia Sir, actually I missed out on the quantitative numbers for the fabric division. If you could just run through them again?

Sachit Jain I think you just mail it to us and then we will mail that to you back again. At treasury@vardhman.com attention Ms. Jasmeet Gill.

Yogesh Bhatia Thank you very much.

Moderator Thank you very much our next question is from the line of Alkesh Jain of UTI Mutual Fund, please go ahead.

Srivatsa Hi, I am Srivatsa here. Sir, we have been hearing that low capacity utilization in Tamil Nadu and Andhra Pradesh because of the power situation so do you foresee a supply like reduction in the coming year because of the lower capacity utilization in the South on account of power sir?

Sachit Jain Yes, this problem in South is very clearly there which is why the mills in north are doing much better than what the current market conditions should dictate and from May onwards as the wind power started coming in so utilization in South should start improving from now onwards. As far as Vardhman is concerned we do not see any relentless pressures from customers. So we do not see any respite, we will be forced to ration customers even more as we proceed in to this year. So strategically it might start looking aggressively for acquisition if something is available because we are under tremendous pressure of capacity.

Srivatsa Okay and sir, how are we placed on the power front in both locations in terms of captive and do we have any coal linkage for our power plant?

Sachit Jain Yeah, coal linkages we have that is only but that is only for two of our spinning mills in Madhya Pradesh and that is a small part over all of our total power consumption so most of our power comes under grid in Punjab and Himachal as well as in Madhya Pradesh one of our plant it all comes from the grid. Two of our plants have our own consumption.

Srivatsa But you have had, not any part of power disruptions in both the states in Punjab and Madhya Pradesh when they are relying on the grid?

Sachit Jain No.

Srivatsa And secondly in terms of fabrics. What would be your proportion of branded fabrics within the total like..?

Sachit Jain Branded it is all goes to institutional sales.

Srivatsa So we do not have any plans to get into the branded space?

Sachit Jain As of now, no.

Srivatsa And largely only on the Vardhman Steel is there any timeline for listing of the shares?

Sachit Jain We have good news on that front. Finally SEBI has given us the no objection certificate, we had advertised in the press and hopefully within May the company will get listed. So now roadblocks are all over.

Srivatsa Thanks a lot sir.

Moderator Thank you very much. Our next question is from the line of Avinash Agarwal of Sundaram Mutual Fund, please go ahead.

Avinash Agarwal Good morning, sir. Could you talk a bit about the kind of cost pressures that you are facing we have seen that power cost have been going up across the country and on labor also we hear this about the labor inflation or could you just give us some sense on how you are managing it and what kind of pressures are you facing margins from that end?

Sachit Jain Yes, clearly power there is a pressure on the power cost across the country and the power rate tariffs are going up across all locations and we are continuously as a company working to reduce or try to save power wherever possible by changing motors wherever possible, moving to more energy efficient motors all that process is going on as well as in our fabric plant we are working continuously to cut down water consumption and steam consumption. So in our new plants in Budni we are anywhere very effective machines, Ballinger machines which consume very less utilities and in Baddi where we have Japanese machines which normally consume more of utilities our team has been working very hard with small incremental improvement and we have cut down over the last five years significantly, our water consumption and steam consumption so that is how we are trying to tackle the energy cost. As far as manpower costs is concerned we are continuously modernizing upgrading and adding automatic docking system so that the need for labor get cut down but currently, thanks to NREGA there is a big problem of workers fortunately for us Madhya Pradesh is a state where availability of manpower is not a problem so all our new expansions continued investments in which are all going in Madhya Pradesh. So overall, we are coping and we have lost some production marginal utilization loss because of workers shortage but compared to the rest of the industry we are far better off.

Avinash Agarwal But could you give us some sense in terms of what kind of increase, net increase that you are seeing on the cost front on these ends, I'm sure..?

Sachit Jain The net increase are between 10 to 14%.

Avinash Agarwal Okay and on the cotton side. What has been the strategy for buying so are we covered till .. just give us some…?

Sachit Jain We do not normally say how much are recovered, but on 31st of March we are normally covered between 6 to 8 months of cotton every year and this year also we would be in line.

Avinash Agarwal And what is the view on cotton going forward, what do you see prices across your segments both cotton yarn and fabrics?

Sachit Jain On cotton side, we're going to see contradictory movement. Globally, because cotton is surplus this year and next year also, it is going to be a good crop. So we would see towards the later part of the international prices of cotton probably going down as we saw today already a 400 point drop has happened in the New York futures but on the Indian. Side we might see the other trend there is going to be a shortage of cotton in India because unfortunately our government comes under political pressure and we have exported out more cotton than what was the calculated quantity. The calculated surplus was 85 lakh bales and we have ended up exporting about 11.5 million bales and maybe some more, which means that as towards the latter part of the season India will have a shortage of cotton. So we will have a peculiar situation India will have a shortage of cotton and globally there will be surplus of cotton so most of the weaker mills could get hurt on availability of cotton or it will be at ridiculously uneconomical prices. All likelihood going up so which means that there will be bottom support to cotton so Indian cotton prices will not follow global trend for the remaining part of the cotton year.

Avinash Agarwal On the yarn side do you think we will continue to see fair bit of strength on the prices?

Sachit Jain As I said two contradictory trends going with the fact that Chinese spinners will continue to get cotton at a higher price than the Indian spinners and Indian cotton will be to Indian spinners currently, so that will add strength to the cotton yarn prices. The yarn prices should not fall much from the current level. However, if the global off take is the prices in the Europe continues further and the global off take goes down then you might see a little softening of cotton. To just give you an idea overall cotton consumption is down this year to 23.5 million tons which is lower than what it was in 2004-05 at 23.7 million tons. So we are lower in '11-12 than what was there in 2004-05, whereas in 2007-08 we had touched 26.5 million tons of consumption, we are actually about 10% lower than what our consumption was in 2007-08 so whether it will continue to fall further, it is difficult to speculate but as of now the expectation is that consumption of this year will be about 2 to 3% higher than in the '12-13 higher than in '11-12 this will be the current expectation unless the collapse in Europe happens.

Avinash Agarwal Sir, in terms of the exports if you could say how you are placed in terms of your forward covers on the export exposure?

Sachit Jain Normally we are covered about 20 to 40% of our export we are covered in terms forwards as well as some options and currently we are at the lower end of that range because we have believed that the rupee would depreciate so we are at the lower and but there is some coverage and there will be some losses, our average covering is about Rs. 51 moving ahead. The average rate will not be as high as what the current spot would recommend all forward losses have already been taken as of 31^{st} of March 2012.

Avinash Agarwal And in terms of our debt book could you just share us what would be the repayment schedule for the next two or three years?

Sachit Jain Next two or three years will be marginal. The big repayments are coming in '15-16, '16-17. Because we had ballooning loan is that we had taken earlier and since the company's debt equity position is reasonable which will of course increase on March 2013 we have drawn down very little of our working capital debt. So there is enough debt capacity within the company to just repay this amount, we do not foresee any problem in the repayment when it starts happening.

Avinash Agarwal In terms of our spend for the current year, how much do we need to…?

Sachit Jain Current year is about 1000 crores?

Avinash Agarwal So do we intent to raise any equity?

Sachit Jain No, no need for any equity. Our company is not in a habit of raising equity funds continuously. We raised equity year and a half ago when we did a QIP that is enough to last for the next I think, 5 to 7 years may be longer.

Avinash Agarwal You also mentioned about looking at the buying out capacities. So are you kind of open to look at capacities in South or it is more..?

Sachit Jain We are open anywhere if a good mill comes up. Yes, we are not looking at 25,000 30,000 spindle plants those become too small for us. But if a good plant becomes available we'll be open to looking at it.

Avinash Agarwal So just to follow up on that. What would be the difference in the machine power rates compared to the new plant, say a plant five or eight years old?

Sachit Jain Currently a new plant that we have put up, 1) It will not be directly comparable because the new plants today will be putting up with auto doffer, link coners, etc. so the new plants will be average Rs. 45,000 a spindle whereas on an acquisition you can get a plant are maybe Rs.10,000-15,000 a spindle. They are not been strictly comparable amount of manpower required in the older plants would be higher because the level of automation will be lower plus you will need to replace certain machines because the current level of clearers in the autoconers and the quality of winding from the autoconers may not be as good as what it is today. So for some of the sophisticated products, those kinds of machines may not be suitable so we will have to have some amount of CAPEX anyway in any acquisition and even after that it will not be strictly comparable.

Avinash Agarwal But will ROCE's be different?

Sachit Jain Of course ROCE's would be different in the short term. In the next 3 to 5 years clearly ROCE will be better with an acquisition.

Avinash Agarwal Lastly, did you have any kind of inventory write-downs in March quarter?

Sachit Jain All the inventory write-downs were done in the 1st quarter of the last financial year so June 2011 we had done with all our inventory write-downs.

Avinash Agarwal Thank you very much Sir.

Moderator Thank you very much. Our next question is from the line of Aparna Shankar of SBI Mutual Fund, please go ahead.

Aparna Shankar Good evening Mr. Jain. On your acquisition, you mentioned you have held back 50,000 spindles and on the other hand, you are looking at some and if it happens and you are keen on doing an acquisition? What advantage does it offer because the way you were explaining that acquiring some other facility you will again have to add some CAPEX and may be that performance may not be..?

Sachit Jain No, there are two kind of performance, one is product quality performance and I do not see any problem in product quality performance, the difference would be in the amount of manpower required that is the difference. So, for example, if that mill may be look at a mill and it may not have auto doffing, it will anyway be adding auto doffing to all our spindles within the group older spindles so we will also need to add the that whereas the new plant will come with auto doffer equipped which is why I'm just trying to explain the difference of Rs. 45,000 a spindle and about Rs. 15,000 a spindle.

Aparna Shankar No , I am basically keen on understanding at one hand you are holding onto your own capacity expansion and then you are open to an acquisition?

Sachit Jain The reason is simple that as I said earlier, we are under tremendous pressure of capacity. So our customers do not believe that in this environment you are saying that you do not have yarn to sell at 9.3 lakh spindles capacity so our customers are upset with us. So we need capacity. Now at the current levels that are new mill is going to cost 260 crores, EBITDA-to-capital employed is not justifying a new mill at the present so we have two conflicting objectives, one is returns to our shareholders and second is service to our customers. So in the crunch eventually, the customer will win. So we are trying to see we will get an acquisition possibility we will reduce our capital employed in capacity for the next 4 to 5 years than at the letter time we can add capacity when we marginalize better than the current level.

Aparna Shankar But in the interim period is it not possible to outsource or something like that?

Sachit Jain Unfortunately, we believe that the kind of quality system we have and the kind of consistency and quality that we are able to bring no other company which will be available for outsourcing would be able to do that.

Aparna Shankar Okay and if you decide on today to go ahead with 60,000 spindles, how much time will it take to commission?

Sachit Jain 60,000 spindles to commission will take one year from whenever we decide maybe less than one year.

Aparna Shankar But the similar time would be spent on acquiring something and getting it up to your standards?

Sachit Jain I guess little less because again we are very clear we buy only good asset. So something which we feel is near our standards where minor work may be required some CAPEX addition will be required but otherwise minor work.

Aparna Shankar So what extraordinary should we be concerned about in FY13 as a business?

Sachit Jain As the current things are going I do not see any major crisis except for outside factors. Europe, I think is the biggest uncertainty I take which is currently hanging which is happening for the entire country and the entire world. So specifically for Vardhman I do not see apart from Europe any other major crisis and second possibility could be if commodity correction continues and cotton prices crash globally then possibility of yarn prices also falling little bit globally could be there but in India because of the government's foolishness of exporting out more cotton so I do not see the possibility at this point in time of having any major inventory losses.

Aparna Shankar And your expectation of improvement in EBITDA margins is coming basically from which angle sir?

Sachit Jain No EBITDA margins may not improve further it all depends because currently the rupee is quite favorable which means that the margins that we have in the 3rd and 4th quarter we should hope to continue.

Aparna Shankar Okay thanks a lot. That is all from my side.

Moderator Thank you very much. Our next question is from the line of Abhilasha Satale of Techno Shares & Stocks, please go ahead.

Abhilasha Satale Most of my questions have been answered actually and just continuing the same question of margin looking at the current cotton and yarn prices I was expecting the margin to be in the range of 12 to 15% in yarn segment. So is it like something we are still having that high-cost cotton or blend has changed as far as cotton and yarn spread is concerned, so I'm just trying to reconcile my figures with the results?

Sachit Jain No, but EBITDA margins for yarn business is about 15% for the quarter so which is a little bit on the higher side from what you are expecting, it is in the same range 15%.

Abhilasha Satale As per the reported numbers it is 10%?

Sachit Jain That would be EBIT, EBITDA has not been reported.

Abhilasha Satale Just including depreciation that is making the difference. So just in that case, what is the current cotton cost and I hope like we already have for the entire year for the next 6 to 8 months?

Sachit Jain As of 31st of March we already had enough cotton between 6 to 8 months of stock of cotton we is already there on 31st of March.

Abhilasha Satale Okay and that would be at the current cotton prices that is what we could say?

Sachit Jain Yes, maybe a bit lower than the current market prices.

Abhilasha Satale Okay. Secondly, coming to the Budni expansion. I just wanted more clarity on this if I could know what is the capacity in terms of spinning and weaving you are looking up to and how much is the CAPEX breakup in terms of both the units?

Sachit Jain See about 50,000 spindles is what we are adding in spinning. We are adding some open end machines, we are adding some 400 looms and we are adding about 30 million meters of processing capacity.

Abhilasha Satale Okay and how much is CAPEX allocated towards that this spinning and weaving?

Sachit Jain Total is what we have been spending is about 1000 crores which includes apart from this is modernization and debottlenecking that we are doing as we said we are adding auto doffing in most of our spinning mills and we're adding some marginal debottlenecking equipment here and there and changing some clearers, adding some contamination devices all that is part of our normal CAPEX and some dyeing machines that we are adding, yarn dyeing machines.

Abhilasha Satale And how much is TUF sanction for this amount?

Sachit Jain All.

Abhilasha Satale Okay. It is the entire under TUF?

Sachit Jain It is entire under TUF.

Aparna Shankar Okay, so that is normal. That is why you do not require any equity?

Sachit Jain Yes.

Aparna Shankar Secondly, on volume trend how much will be in FY13, how much volume growth could we see going forward as we have also added some spindles in FY12. So in yarn and fabric segment?

Sachit Jain Yarn will be marginal increase because already we have got some of the increase in this current year for Anant-4 and as well as for VSM-2 these are the two plants that are coming up and we have got some increase in capacity, but with this 400 looms coming up the entire spinning will come up only by March of next year so we will look at no gain from the spinning because these loans will start consuming yarn so actually there would be might be a drop in yarn sales in '12-13 compared to '11-12. Fabric would increase because the new capacity of 30 million meter we will get at least 15 to 18 million meters is what we will add in capacity for the full year.

Aparna Shankar Okay, this is entire process fabric or does it include grey or..?

Sachit Jain Entire 400 looms when it comes up, we will have grey fabric sales also.

Aparna Shankar Okay so how much is that proportion?

Sachit Jain It all depends upon as it gets keep adding up there are some delays with the project because of the worker shortage on the civil contractor side so the project is little behind schedule. So grey fabric will be minor increase but basically about 15 odd million of processed fabric increase will be there may be 10 million odd for grey fabric would be there but we will have a better idea on that when we do the con call of 1st quarter of this year. We will be able to give you more precise numbers then.

Aparna Shankar Okay fine, thank you.

Moderator Thank you very much. Our next question is from the line of Rahul Bangadia of Lucky Securities, please go ahead.

Rahul Bangadia Thank you for taking my question. There was previously discussed about the cost part of it I was just wondering the majority of the investments that we are planning to do this year these are Brownfield or Greenfield investments?

Sachit Jain All Brownfield.

Rahul Bangadia So just taking a little further from that how easy or difficult is it relatively to put up Greenfield plants today than what you are doing on the Brownfield side?

Sachit Jain Greenfield you have to figure out which state you want to be in, which district you want to be in then identify the piece of land which is all very difficult.

Rahul Bangadia I just wanted to get on that only in the sense of piece of land buying land is one problem, getting power supply in place and everything so is that all a big issue right now, or do you see that?

Sachit Jain We have not done that for the last 4 to 5 years so we do not know the current environment. Last five years all that we have done is that within the existing sites.

Rahul Bangadia Now Vardhman is doing this but in the industry itself, do you see others also following the same trend or do you have a sense on that?

Sachit Jain I do not think it is as big a problem because what you have talked in the press is for the really huge plants, steel and mining and those things where land is a problem. Spinning mill maybe you need 50 acres of land or 60 acres of land, if we pay the right price. I do not think it is a major problem. As a company we do not have a personal experience but for a little while ago we were looking for some land for our steel plant, and we had no problem in locating land.

Rahul Bangadia Okay and the other point is, as you mentioned that you are seriously stressed on the capacity bit is the demand driver basically the domestic demand or the export side?

Sachit Jain Both.

Rahul Bangadia Now from the domestic side as you mentioned that the south-based guys are facing some capacity utilization problems due to their own power and other issues. So, at what rate is the domestic market growing?

Sachit Jain Very difficult to predict because when we sell domestically some of it is again going to export some of it is going to domestic market. It is very difficult to predict how much is the domestic market growing and export growing but we are facing demand on both sides at Vardhman.

Rahul Bangadia And what is your sense on the export side the demand that you are facing is that a function of also the fact that some part of the demand is diverting away from China and to India or something like that?

Sachit Jain No, export China is the biggest market.

Rahul Bangadia You yourself are exporting to China is what you are saying?

Sachit Jain China is our biggest market and our customer there are very unhappy with us.

Rahul Bangadia Because you are not able to supply them?

Sachit Jain Not able to supply the quantity that they want. We can easily add 2 lakh spindles and sell the entire 2 lakh spindles to China and India both. The 2 lakh spindles on the current 9.25 for

Vardhman you can easily if we add in the next six months our customers will be happy and we will have some peace.

Rahul Bangadia So you will be sold out on the additional two lakh also?

Sachit Jain Within three months.

Rahul Bangadia And what is the kind of spindle addition that you see in India going ahead in the next one or two years?

Sachit Jain I think the companies are very highly stressed so clearly the spindle enhancement would slowdown. Certain companies are in the midst of their projects but it is very difficult for them to start. Vardhman is a very good customer of all suppliers so for us we could even request some customers that even if you opened LCs to hold back supplies so we have that flexibility. Most of the company would not have that kind of flexibility.

Rahul Bangadia Any sense that you are going to add 1 million spindles, 2 million spindle or 5 million spindles in India, what is your sense of how much are we going to add in the next 1 to 3 years?

Sachit Jain 1 million per year is definitely would come in, but if you think we would go back to 2.5 to 3 million a year looks unlikely.

Rahul Bangadia Okay, thank you so much for answering my questions. Thank you.

Moderator Thank you very much. Our next question is from the line of Naga Deepika of Capital Markets, please go ahead.

Naga Deepika One is the question pertaining to your talk on the acquisition of new mills is that only towards spinning you are also looking out any processing looms also in the mills?

Sachit Jain We are adding 400 looms of our own so that is not high on our agenda. But if we get a good yarn guys company and we were might look at that, but spinning is where really the problem lies as far as our customers are concerned, the spinning is higher on the agenda than any other area. But if a good opportunity comes, why not. And when the industry is in distress that is the time when the financially more conservative companies can take advantage of that.

Naga Deepika What is the current capacity because 76,000 spindles would have been added in February, right?

Sachit Jain So now we have 9.3 lakh spindles, if you look at as a whole.

Naga Deepika This is on the consolidated?

Sachit Jain Consolidated that is right.

Naga Deepika And you said one more CAPEX is coming in, I'm sorry I missed the plant where is the plant due?

Sachit Jain It is in Madhya Pradesh, Budni.

Naga Deepika And the CAPEX for this plant for this Brownfield expansion would be around 500 crores?

Sachit Jain More than that. Majority part of this 1000 crores is going to go in that plant.

Naga Deepika Can you split of the exports in yarn segment for the quarter and year, the revenue or even the quantity terms?

Sachit Jain I think if you mail it to us, we will mail it back to you, treasury@vardhman.com.

Naga Deepika On the hedging front around 40% of the book is hedged and going forward what is your policy?

Sachit Jain No , and normally we hedge between 20 to 40% of our exports for the next year, rolling 12 months ahead and currently we are at the lower end of the 20 to 40.

Naga Deepika And what would be the FOREX gain or loss in the quarter?

Sachit Jain This is booked on the basis of actual fixed rate and FOREX components 54.20 what _____ **54.33** so the difference in the fourth quarter is also on the positive side it is Rs. 12 crores.

Naga Deepika Okay, this was netted of the losses also, right?

Sachit Jain Yes that is right.

Naga Deepika Okay thanks a lot.

Moderator Thank you very much. Our next question is from the line of Kurdent Chheda of Value Quest Research, please go ahead.

Krudent Chheda What is the current yarn and cotton spreads?

Sachit Jain Current yarn and cotton spread is about $1.3 to $1.4, Indian cotton.

Krudent Chheda And what was it six months back?

Sachit Jain Six months back, November it was about $1.

Krudent Chheda The increase in spread is because of price increase or increase in cotton prices?

Sachit Jain It is the combination of both. Partly at that time, yarn prices was $3.5, currently they are about $3.85 then the rupee has also moved and cotton price is a little lower.

Krudent Chheda Okay, you said that you do not expect any big capacity expansion in the industry, right?

Sachit Jain Yes, the entire industry is distressed so that I meant it is difficult for most people to go ahead with the CAPEX.

Krudent Chheda Okay thanks a lot.

Moderator Thank you very much. Our last question is a follow-up question from the line of Rahul Bangadia of Lucky Securities, please go ahead.

Rahul Bangadia Thank you sir for taking my question again. I was just wondering if, as you mentioned that you are seriously stressed on capacity and your customers are not happy with you not being able to provide what they want, then shouldn't you have some more pricing power and should be able to get slightly better margins than 15% in the best of times you have managed 20% plus. So do you actually see some pricing power coming in your way or if not, then why?

Sachit Jain Unfortunately, this is a commodity and a little better prices than the rest of the people, but you do not have the absolute pricing power customer will walk away from you to somebody else beyond a particular price increase. So if you noticed that when I am saying the rest of the industry is distressed and we are at about 15% margin. So I think, compared to it is not an absolute performance. It is relative to the rest of the industry.

Rahul Bangadia So is it fair to as you that if you are at 15 then others are probably at 10 to 12, that is the way to look at it?

Sachit Jain I have not looked at other company's balance sheet, but probably yes.

Rahul Bangadia That is what you seem to suggest right that you are doing slightly better than others? Even in the commoditized nature of the business you are getting some better margins than the others. That is the way to look at it?

Sachit Jain I would presume so but I have not looked at other nobody else results. I do not know.

Rahul Bangadia I just need your sense that is the way you understand the situation, right?

Sachit Jain Right.

Rahul Bangadia Okay, thank you so much.

Moderator Thank you very much. I would now like to hand the conference over to the Management team for closing comments. Over to you Sir.

Sachit Jain Thank you everybody for being part of this conference call and my request to you would be since Budni is our new plant, which where maximum CAPEX has gone in the past and further is going up so any time in August-September, if some of you want to come and visit that plant, I think that would be nice and we would request India Infoline to maybe arrange whoever wants to come, but we are continuing to go through difficult times and Vardhman as a management will try to continue to do a little better than the industry we are putting in our best and that is why we held onto dividend despite a massive drop in profit, we have maintained dividend and hopefully moving ahead we will look at better years ahead. Thank you so much.

Moderator Thank you very much Sir. On behalf of IIFL Capital Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.