



“Vardhman Textiles Results Conference Call”

November 15, 2011



MODERATORS: MR. SACHIT JAIN - EXECUTIVE DIRECTOR
MR. RAJEEV THAPAR - CFO
MS. JASMEET GILL - CORPORATE FINANCE AND IR.

Moderator: Ladies and gentlemen, good day and welcome to the Q2FY12 Results Conference Call of Vardhman Textiles hosted by IIFL Capital Limited. As a reminder, all participants' lines will be in the listen-only mode. And there will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this conference call, 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. Thank you, and over to you, sir.

Avi Mehta: Thank you Lavina. Hi good morning everyone. On behalf of IIFL, I would like to welcome all of you to the Q2FY12 conference call for Vardhman Textiles. From the management, 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. Sachitji?

Sachit Jain: Good morning everybody and once again thank you for showing an interest in Vardhman Textiles, for attending this call. As we shared with you earlier that first quarter was pretty disastrous and the company suffered huge inventory write-downs, but we were prudent in writing down, taking all losses that we could take; that were apparent at that point in time and therefore we had predicted then that second quarter would clearly be better, we will not be in loss situation.

So we are in profits, but overall first half we still had a small loss. I will -- before passing on to Jasmeet to take you through the numbers of the performance, I just wanted to answer one particular question, not directed related to Vardhman Textile, but which would be in the minds of many of you. As you know, we went through a process of demerger where we de-merged the steel business of the company into a separate company and this was also based on several years of interaction with various fund managers who were always asking what is Vardhman doing in steel and doesn't make sense for steel to be part of Vardhman Textile. So we finally took the plunge, then that process will demerger.

The question everybody is asking what is happening to the listing. We grossly underestimated the time it takes to get approval from SEBI, so our apologies for the same. We have approvals from both the stock exchanges and then we applied to SEBI some time in June and we have been flooded with one question, we answer that and another question comes and we answer that, a third comes and we answered that, a fourth comes in; so that's currently going on.

We are quite fed-up with this entire process, my apologies for that. But we're still trying and our apologies for the funds that we have not been able to get it listed. And if any of you are aggrieved please write to SEBI and complain that this process is taking too long. My apologies once again on this, but the steel company so far has done reasonably well and we will talk about that later if any of you have any questions. This of course is a Vardhman Textiles call, and I will pass on to Jasmeet to take you through the numbers. Thank you all.

Jasmeet Gill:

Good morning everyone. I'll start with the revenue figures for the quarter ended September 2012. The yarn business has shown 26% increase in the revenue in this quarter; it gone up to 899 crores as against 714 crores for the same quarter last year. The fabric business has also shown a 12% increase in the revenue, which has gone up to 288 crores from 258 crores in the same quarter last year. The steel business was there in the company in September 2010 quarter which had revenues of 97 crores, which is no longer with the company in this quarter. The total revenue has -- the net turnover has increased by 14% to 1,035 crores from 908 crores in the same quarter last year. The EBITDA has gone down drastically for the yarn business. It has gone down by about 37% in the quarter ended September 30th, 2011 to 111 crore as against 177 crores in the same quarter last year.

The gross margin the EBITDA to sales for the yarn business has also fallen to 12% as against 25% for the last year's quarter. Fabric business EBITDA has shown a 10% increase to 36 crores as against 33 crores for the last year's quarter. Gross margins on fabric are unchanged at 13%. Steel business had an EBITDA of 14 crores for the last year's quarter. There is zero EBITDA for steel business this year because obviously the company has got demerged. The total EBITDA has gone down by 32% to 154 crores as against 227 crores for last year's quarter.

The total EBITDA to sales has gone down to 15% from 25% for the same quarter last year. If you look at the YTD figures the total sales has increased by 16%. It has reached 1,995 crores over the year-ended September 30th 2011 as against about 1,700 crores for the same period last year. EBITDA for the yarn business has decreased by 68% for the first six months of this year. It has gone down to 110 crores from 349 crores last year. And for the fabric business it has again marginally decreased it has gone down to 72 crores from 84 crores for the same period last year.

And the total EBITDA for the first six months of this current financial year is 187 crores as against 447 crores last year, a decrease of about 58%. The EBITDA margin has gone down to - overall has gone to 9% from 26% last year. If you look at the EBIT figures again a decrease in yarn for the quarter ended September 2011, 72 crores has against 137 crores last year. Fabric business has shown almost 20% increase. It's gone up to 22 crores from 18 crores last year. The total EBIT is 97 crores for the quarter as against 170 crores last year for the same period. And the EBIT to sales is 9% for the quarter as against 19% for the same period last year.

For the first six months the EBIT has gone down to 83% for the total business -- for the total company as against 299 crores last year. Capital employed in the yarn business has increased by 18% there has been additions in the capacities of the spinning business. The capital employed had gone up to 2,528 crores for yarn as against 2,134 crores last year for the last year's 30th September.

The EBITDA to capital employed is 18% for yarn for 30th September 2011 as against 33% which was last year. And for fabric business the capital employed is almost same at 964 crores as against 924 crores for last year September. The total capital employed has increased by about 5%. It's gone up to 4,472 crores as on 30th September 2011 against 4,255 crores for the same period last year.

The total EBITDA to capital employed is 14% as on 30th September 2011, against 21% last years for the same period. If you look at the consolidated figures, the company releases only the net sales and DVDID figures on consolidated basis for the quarter. For the second quarter the net sales are 1240 crores and the consolidated EBITDA is 187 crores, it was 257 crores last year. Last year's net revenue for the quarter was 1080 crore. If I look at the first six months, the consolidated revenue has increased to 2340 crore as against 2048 crore for the last year's for six months.

The consolidated EBITDA is 237 crores for the first six month of this year as against 479 crore for last year for six months. Moving on to the quantitative figures, the production for the yarn business has increased slightly for the quarter, it has gone up to 33,530 metric tons as against 32,620 for the last year's quarter. The sales in yarn have again increased to 39,060 tonnes from about 36,750 tonnes for the same quarter last year. This year there has been much figure increase in the export proportion of the yarn as again for the metric sale, the export for the second quarter is about 41% of the total sales of yarn which was about 32% last year.

There has been an increase in exports overall from the company as a percentage to the total turnover. The realizations have been almost same as compared to last quarter, there about 200 rupees per kg against 210 rupees per kg this quarter, so just a 5% increase, but against that the average price of cotton has increased by almost 70% from last year which is why the yarn results are not so great.

In the gray fabric the utilization for the second quarter in 2011 has gone down to 84%, this was 95% in last year's quarter. The production has decreased to 263 lakh meters against 292 Lakh meters for last year's quarter. The sale figure is 274 Lakh meters against 282 last year's quarter, out of which gray fabric about 70% we sold in house and the rest is about 23% is sold domestically and the balance is exported. The rates have been almost the same about 75 rupees per meter for gray fabric.

Process fabric utilization is again lower for - this year's quarter the utilization for process fabric was 78% against 82% for last year's quarter. The production for process fabric this quarter was 176 lakhs meters against 184 Lakh meters the last year's quarter and the sale figure was 173 Lakh meters against 181 Lakh meters. Out of this process fabric about 35% is sold in the export market and the rest is sold domestically to export houses or the buying houses. The rates on the process fabrics have been better by about 15%, 16%. The average realization for this quarter has increased to about 126 meters, rupees per meter again 108 rupees per meter for last year's quarter.

That was it on the number.

Sachit Jain: So, overall the situation as I said though has become better it seems from the first quarter this year. But clearly conditions are still tough, we are only better because we have taken the company's write-off in the first quarter. Overall sentiment about the business in the global markets doesn't seem to be too bright at this point in time. Yarn prices had gone down to a low of \$3.35 per kilo, recovered to went up to almost \$3.95 to \$4, have again come down to around \$3.15 to \$3.60 levels.

So this is – and overall there is still a supply overhang in India, so productions of yarn are about 15% as a country lower than last year same period. However, the inventory buildup that had happened in India as of 31st March seems to be getting into the way gradually, but still overall inventory levels are higher than what it should be. So, I guess another – for the industry as a whole to really start recovering maybe another 3 to 6 months perhaps as far as spinning is concerned. Not helping us as the global environment where uncertainty is clearly affecting the sentiment, so business is going on but it's not a robust business which is a pull for the product, I am just capturing the sentiment.

I would like to now leave the floor open for questions.

Moderator: Excuse me sir, can we begin the question and answer session now?

Sachit Jain: Yes, please go ahead.

Moderator: Thank you. Ladies and gentlemen we will now begin the question and answer session. The first question is from Avinash Gupta from Globe Capital. Please go ahead.

Avinash Gupta: Sir, good morning. Just a small clarification. I was going through that result list.

Sachit Jain: I am sorry; hello your voice is not clear.

Avinash Gupta: Okay. I was going through that result statement.

Sachit Jain: What you have been? Close to your mike or something.

Avinash Gupta: Hello, can you hear me?

Sachit Jain: A little better.

Avinash Gupta: Okay. Should I go ahead or...?

Sachit Jain: Yes, go ahead.

- Avinash Gupta:** You see in the balance sheet that you have given, you have stated that your debtors going up and your inventory has been going down, is that seasonal that your inventory always comes down during the September quarter or it is really a price affect?
- Sachit Jain:** One, inventory overall comes down in the second quarter because we heat up the cotton that we have built up, so 31st March always will have the highest overall inventory. And by 30th September we will have only 1 to 2 months stock up cotton depending on the amount of cotton we have purchase, so that is the reason that inventory goes down. And debtors have gone up because it depends on our export performance when we discount and when we don't discount and that depends on the value, the view we take on the foreign exchange at that point in time and the quarters has also increased.
- Avinash Gupta:** Sir, come again.
- Sachit Jain:** The export has increased and we have not, I mean, every point in time looking at the trend of the rupee we decide on how much to discount and how much not to discount.
- Avinash Gupta:** Okay. Normally what we have seen, whenever there is such a strong price moment, there is a strong buildup of the high cost inventory in the biggest pipeline, the biggest users. So at times there is a pressure to reduce the prices and the delays and all those, and also that cash flow of the various users got, is this impacting your, you know, is the realization period increased?
- Sachit Jain:** No, no, there is clearly a pressure in the market, as you rightly said and people are cutting prices. And therefore the prices as I said which of 30 a standard product which has gone up through about \$4 is now down to again \$3.50, \$3.60. So, yes there is pressure in the market because of supply overhang, absolutely correct.
- Avinash Gupta:** Okay, is it resulting in the – I mean, what my question is, is it resulting in an increased, you know, for this period, is it taking longer to realize your dues in the domestic market?
- Sachit Jain:** Nothing major for us, minor – one or two days realization is going on.
- Avinash Gupta:** That is much visible, that's fine. Number 2, you have mentioned that about your foreign currency of these exposures, you are not maximum to the market or any impact that you have not taken the way in terms of holding them through the maturity?
- Sachit Jain:** Sorry, please?
- Avinash Gupta:** You have set right that options that you are holding, you are not marked them to the market?
- Sachit Jain:** Yes.
- Avinash Gupta:** What would have been the impact had there been in mark to the market?
- Sachit Jain:** We have not calculated that. But, you see we don't have any complicated options.

- Avinash Gupta:** Okay.
- Sachit Jain:** And most of our options are very simple options which have actually given us much better realization on terms of our dollars, so there are no complicated options at all, the company is very clear, we are only in the business of protecting our rupee-dollar figure. So, if you see even on the – overall as a company amongst the larger companies, our FOREX losses have been amongst at the lower end.
- Avinash Gupta:** Okay.
- Sachit Jain:** We have taken a conscious view and we are following the same conscious view the last – I think year and a half or two, that we are not looking at options because there is no – it's not a liquid market and there is no proper way of getting this.
- Avinash Gupta:** Okay.
- Sachit Jain:** The right value. But -- I will repeat, there is no complicated, exotic options, as of company we don't believe in that.
- Avinash Gupta:** Okay, anyway when did you – I mean, to what extent that you are -- how many months of exports are we, you know, you cover on – in your with your option solutions?
- Sachit Jain:** We cover our exports either by simply selling small goods.
- Avinash Gupta:** Okay.
- Sachit Jain:** Second, we take simple options like which give us a range, for example, that the rupee between 47 and 51 will give us the value of the rupee at market, below 47 will give us 47, above 51 will give us 51, slightly leverage positions, these are the kind of options we have.
- Avinash Gupta:** The options you have mainly to productive or exports realization?
- Sachit Jain:** Only for our exports.
- Avinash Gupta:** I mean, normally the asset we would be holding would be of how many months of exports?
- Sachit Jain:** About 30% of our annual exports.
- Avinash Gupta:** Okay, that means of the order of 4 months or so
- Sachit Jain:** And plus forwards.
- Avinash Gupta:** Plus 4 months of exports, you hold your options and beside that you hold also, hold forward contracts?

- Sachit Jain:** I think total Yes, total is about 30%.
- Avinash Gupta:** Okay. And now at the moment all your – another question is, at the moment all your inventories is mark to the market, no issues on that side?
- Sachit Jain:** I'm extremely sorry. But, if you can just speak a little slowly, I'm not getting you.
- Avinash Gupta:** Okay, okay. Is all our inventory is mark-to-market, you mentioned that we have not driven the mark-to-market loss in the last quarter.
- Sachit Jain:** Yes.
- Avinash Gupta:** As of now all our inventories are mark-to-the-market?
- Sachit Jain:** You've already found in the March last quarter.
- Avinash Gupta:** Okay.
- Sachit Jain:** And actually we – the value of cotton has risen from that level. It is in the first quarter, in high side perhaps we could have shown a little less loss in the first quarter. So, we think that was the market condition and we took the complete loss.
- Avinash Gupta:** Okay, that was absolutely equivalent. Now, one more small figure I wanted to understand is, what is the outlook for the cotton prices or cotton productions of next season, which is – which would have been, we will be starting shortly?
- Sachit Jain:** The outlook of cotton is very bright in terms of crop size, the crop is expected to be about 35 million bales in India and which was last year were about 22 million bales, so it's a bumper crop. Unfortunately, the government has changed the policy on cotton exports and has both cotton exports and OGL right in the beginning, so which is giving by competing countries. But, we expect that as arrival pressure picks up in the next 15, 20 days or so, we will get decent opportunity to buy cotton at reasonable prices, reasonable is a new norm, at the new normal, I mean, a year and a half ago we couldn't even imagine these kind of prices to be normal.
- Avinash Gupta:** And how is the demand in the outsource market for yarn and.....
- Sachit Jain:** Not so great.
- Avinash Gupta:** Not so great?
- Sachit Jain:** I think we are sentiment on what's happening in Europe, what's happening in US is affecting everybody, also people are concerned to the volatility. So, both things are playing out, if the prices stabilize at a particular level, I guess the demand would pick up a bit.

- Avinash Gupta:** Especially the cotton prices and.....
- Sachit Jain:** Both cotton as well as yarn. But the yarn has fallen from \$4 to \$3.50 last three months.
- Avinash Gupta:** Alright, and how is the – what is the kind of demand that you are seeing where in the Christmas season that is there, I mean.....
- Sachit Jain:** More specific, the current sentiment is not too positive.
- Avinash Gupta:** Okay.
- Sachit Jain:** Vardhman is not getting affected, we are running our yarn to full capacity utilization, our fabric utilizations are the same as first quarter and little better now, if you see the closing of the quarter we are really better than last quarter, first quarter, of course, to the same period last year, but situation is little better as of now. But, you know, from the market, when you meet customers you are not getting a very positive sign. So, the present companies like Vardhman will clearly be okay, but for the average companies and they are still going through a tough time.
- Avinash Gupta:** And what about our garment business and you didn't get information on the garments and it's too small here?
- Sachit Jain:** It will remain small and we are trying to stabilize that, so I think we'll really talk about the garment business six months down the line.
- Avinash Gupta:** Okay, great. Thanks. One small thing, Jasmeet have got number of data points, is it possible to get that as a – that information?
- Sachit Jain:** We don't release all these data, but we will see what we can put on to our website.
- Avinash Gupta:** Okay, thank you.
- Sachit Jain:** All the data that we talked about.
- Moderator:** Thank you. Before taking the next question we would like to remind participants to press * and 1 to ask a question. The next question is from Rajesh Pherwani from HDFC Mutual Fund. Please go ahead.
- Rajesh Pherwani:** Thanks. Just if I look the RM2 sales in the quarter, we are at around 63%, last quarter was about 67% and before that we were around 40s. Are we still operating at higher cost yarn, higher cost cotton inventory and what would be the new or normalized sort of RM2 sales going forward or you had the current cotton prices? And also what would be the margins in the yarn division on a normalized basis going forward?

Sachit Jain: One, when overall prices move up either the margins you may have seen, the raw material prices will move up as a percentage of sales. Having said that, we are not – no longer at high cost cotton in terms of the new normal, but compared to last year or the year before that clearly at a much higher cost of raw material. And today's prices of cotton, the current prices of yarn are clearly not ruminative enough, in fact we believe to deal reasonably profitable, the yarn prices need to move up by about \$0.30 to \$0.40 a kilo. So we – either cotton will fall further or yarn would increase further. We think it will take about three to six months for things to playing out. But currently situation is not too bright.

Rajesh Pherwani: So the 8% margins really reflect the current situation?

Sachit Jain: I am sorry?

Rajesh Pherwani: The 8% EBIT margins in the yarn division, do they reflect that?

Sachit Jain: Actually if you look at EBITDA always, so I request everyone to, if you look at spinning industry or textile industry please look at EBITDA margins. So overall EBITDA we have got in the company is 15%, the new normal I think and earlier I use to say that there is normal of what about 18% to 22% for our company, but I think at a higher price level we should be of talking between 12% to 19%.

Rajesh Pherwani: So we are somewhere in between at this point?

Sachit Jain: Yes.

Rajesh Pherwani: Okay. Okay. Thank you so much.

Moderator: Thank you. Ladies and gentlemen if you wish to ask a question at this time you may press * and then 1.Mr. Mehta would you like to ask a few questions while the participants join the question queue.

Avi Mehta: Sure. Sir, just wanted to understand in terms of the yarn market now, how, in terms of the cotton procurement cycle has that started and is there any impact on the cotton crop because of the range?

Sachit Jain: Cotton crop is very good as I said, as things stand now it's clearly seem to be at 35 million sales, so it's a very, very good crop. It might get affected marginally when it comedown from 35 to maybe 34 which is still a billion crop. So, I wish our government had land its policy than better, this could have been a good time for entire Indian industry, but unfortunately the government updated correct.

So – and we have begun our cotton procurement. As of now normally we do a daily day-to-day buying and we buildup recently normally start somewhere mid December onwards. And then every year depending on how we look at cottons crop projection and so on. We build up off inventory continues from about mid December to about end of March. And every year we take

a decision normally in Jan or Feb to stock cotton for six months to eight months as of 31st March.

Avi Mehta: Okay sir. But, just to follow up there, because of this OGL, is it – how has that impacted yarn spreads and is that actually impacting it all or how is that playing out?

Sachit Jain: It is clearly playing out, if the OGL had not happened the cotton would have fallen clearly from where it is today. So currently Shankar-6 is ruling at around 37,000 to 38,500 Rupees of candy, I mean, fluctuating between this range. With the size of crop if OGL had not happened, if cotton would have clearly been lower than this. And global prices of cotton would have been higher than this, so which means clearly and which would have meant that yarn prices would have been higher than what they are today. So margin would have been significantly better.

Avi Mehta: Okay, sir. Are they fine now?

Sachit Jain: Sorry?

Avi Mehta: Are domestic and international prices, domestic international prices?

Sachit Jain: Are close to each other, because when OGL happened then we can't have two bigger difference in cotton prices.

Avi Mehta: Okay sir. That's all from me sir.

Moderator: Thank you, sir. The next question is from Shaukat Ali from Quantum Securities. Please go ahead.

Shaukat Ali: Hello sir.

Sachit Jain: Yes.

Shaukat Ali: Yes, this is Shaukat Ali. Sir, I want to understand the earnings of yarn things as well as like yarn margins have, last year overall the standalone average yarn realization was around 225, 226 Rupees per Kg, if we calculate. Now we are closing into around Rs. 210 per Kg, and that's the reason why we are showing growth in yarn sales. But where exactly our EBITDA margins is like getting depressed, is it because of like cotton prices are quite higher compared to last year?

Sachit Jain : Yes, that and also last year we said our long was to this bumper all kinds of objective you can use, that is a kind of what was there last year. So there is no way we can compare our performances, last year performance, and all along we get same on every con call, our own results were far ahead of our expectations. So, last year was majorly good and this year has been a very tough year so far.

Shaukat Ali: But we are closing in terms of yarn realization prices, yarn prices?

- Sachit Jain:** Yarn prices are greatly higher than what they were last year, but they need to be significantly higher at the current cotton prices.
- Shaukat Ali:** That's the cotton price that is creating problem, means, our EBITDA is different because of cotton prices?
- Sachit Jain:** Yep, you can say that.
- Shaukat Ali:** Okay. Thank you sir.
- Moderator:** Thank you. The next question is from Sumant B from Jet Age Securities. Please go ahead.
- Sumant B:** Good morning sir. I had a question, if I speak to one of your subsidiaries, Vardhman acrylics, where you had announced the buyback of shares, would you be able to give some update on that?
- Sachit Jain:** Again, pending with study we apply to – when do you guys are studying? May or June we will apply to study. So it's still June I think, Yes, so it's still pending with study, they keep having some query or the other. I think probably we will get the permission of the buyback by that time, the permission is over then we will start the whole second adhere I guess.
- Sumant B:** Thank you.
- Moderator:** Okay. Thank you very much. The next question is from Bhavin Chhada from Enam Holdings. Please go ahead.
- Bhavin Chhada:** Yes, good morning sir. Sir can you repeat the productions and sales volume number again, I just missed out on that?
- Sachit Jain:** Yes, just a minute, Jasmeet will give you the numbers.
- Jasmeet Gill:** The production numbers for yarn was 130,860 metric tonnes.
- Bhavin Chhada:** You are giving, I just want for the quarter?
- Jasmeet Gill:** The quarter it was 33,530, it was again 32,620 last quarter, this is for yarn. The total for yarn was 39,060 tonnes, again 36,740 tonnes last quarter.
- Bhavin Chhada:** 39,060?
- Jasmeet Gill:** 36,740 last quarter.
- Bhavin Chhada:** This quarter?
- Jasmeet Gill:** 39,060.

Bhavin Chhada: This includes internal sales right?

Jasmeet Gill: It includes internal sales.

Bhavin Chhada: How much was the merchant sales?

Jasmeet Gill: Internal sales were about 25%, the remaining were merchant sales

Bhavin Chhada: Okay.

Jasmeet Gill: And you want the numbers of fabric as well?

Bhavin Chhada: Yes, Yes.

Jasmeet Gill: Fabric, gray fabric was – production was 263 lakh meters against 292 lakh meters last quarter. The sales were 274 lakh meters against 282 lakh meters last quarter.

Bhavin Chhada: Okay.

Jasmeet Gill: And out of this almost 70% was in house.

Bhavin Chhada: Okay.

Jasmeet Gill: For process fabric 176 lakh meters was the production number for this quarter against 184 the last quarter. The sales number was 173 lakh meters against 181 meters last quarter. And out of which about 35% was sold in this export market rest goes to the metric sales.

Bhavin Chhada: Okay. Okay, thanks a lot.

Moderator: Thank you. The next question is from Mitul K from ICICI Prudential, please go ahead.

Mitul K: Yes, hi, sir just want to your feed back on the government...

Moderator: Excuse me, this is the operator.

Mitul K: Yes.

Moderator: Sir will not able to hear you?

Mitul K: Okay, am I audible now?

Moderator: Yes, you are. Thank you.

Mitul K: Yes, thank you. Sir, want your some understanding on what is the government stand on the overall policy. You mentioned clearly about the cotton, what they are doing, how about on the

yarn side, because last year they had created some kind of trouble for the yarn market, has their policy been clearly crystallized or it is still subjective to the minister?

Sachit Jain:

I think very difficult for us to comment on government policy, but I think government has understood the mess they made last year. And I – it's highly unlikely that they will do anything of that sort again. So but there is no clear stands just now that is it clearly on but highly unlikely now given that the absolute damage and mayhem they have created in this industry and the banks are going to suffer now as the entire textile industry goes in for restructuring to the banks. So clearly you will see lot of provisioning and all those things happening at the banks. So government has realized that and unlikely they will do this kind of thing again I guess.

Mitul K:

Okay. Okay, sir some update on your CapEx, how is it progressing?

Sachit Jain:

CapEx is going on okay, little marginal delay in Anant three. We should be ready by November, December, sorry, by December end it will be completed. VSM also by November end will be completed. We have further scaled down our CapEx plan in terms of our new plants. So Satlapur sites we have put on hold and we were earlier running 600 looms, we had already dropped 200 looms, now we are putting another 200 looms on hold. So out of the 420 looms, we're putting about 220 looms.

So clearly we are responding to the market situations, but we still believe long-term that the industry is good, but looking at the current situation we want to conserve cash and make sure the strength of Vardhman Group has always been when gaining adequate liquidity and we have adequate liquidity to pursue cotton buying or an opportunity time an acquisition comes up that could – we will clearly have the gun power, and powder will dry we are looking for such an opportunity. So on CapEx we have gone little more conservative than what we were earlier.

Mitul K:

Okay. And sir, so in absolute value how much has been shelved?

Sachit Jain:

Yes, above 500 crores has been shelved.

Mitul K:

This includes the previous Satlapur also which was put on hold, right?

Sachit Jain:

No, earlier we had further plan which we had already put on hold earlier. There was another spinning mill of Budhni 50,000 spindles, which was put on hold much earlier. The latest one is the Satlapur number 5 which we put on hold.

Mitul K:

Okay. So Satlapur thing will save us...

Sachit Jain:

220 crores.

Mitul K:

Okay, and...

Sachit Jain:

Loom will save us another 140 – 150 crores.

Mitul K: Right, right. Okay.

Sachit Jain: I am sorry Satlapur is about 270 crores.

Mitul K: Okay.

Sachit Jain: Plus margin money.

Mitul K: Yes, and just would -- just at the current cotton price there should be a good amount of inventory which would get released for the next March, on a march to march comparison if I just try to think, would it be right to assume that or?

Sachit Jain: It depends on that what prices does cotton but as things stand, yes we will be consuming less cash than last year for our cotton build up, as things stand now.

Mitul K: Okay, okay. And sir, what -- where are we on Vardhman Special Steels listing?

Sachit Jain: Pending with SEBI, we have -- sitting in Ludhiana, we don't have the ability as an organization, I guess to the corridors of SEBI. So any of you -- and your help to help the company's listing I have appealed to SEBI personally, talked to few people, I am now requesting a meeting one of the EDs. We don't know what to do. We keep getting some question or other and the same question that repeated somebody else so, classic corridors of power.

Mitul K: Okay. Yes, because it has taken quite some time?

Sachit Jain: Yes, it is very, very unfortunate. And we seem to have withstand what to do and we are not raising any money, we are very clear and we talk to them we are not raising any money, on the company we are giving an option to investors to exit this company if they want to, I think they have understood this and if the next 10 to 15 days nothing happens I will probably write to the Chairman, myself.

Mitul K: Okay. That's encouraging.

Sachit Jain: But I can only apologize to all our shareholders.

Mitul K: Sir, one more thing on the TUFS side, like is the date more sacrosanct expected to lapse by the March next year?

Sachit Jain: We have all along believe that it is not likely to get extended because look at when the government is trying to cut down on politically sensitive subsidies like diesel and petrol, which is causing them political harm, why would they continue on a textile subsidy, when there is already 15%, 20% under utilized capacity. So we have always taken the view it is not likely to get extended, but again who knows what government does.

- Mitul K:** Right, right. And if this, say suppose if this gets not – if this doesn't get extended where do you see the overall CapEx planning, at least will it take a pause and then again wait for the margins to go up to again announce CapEx by the players?
- Sachit Jain:** No, no for sure I don't think anybody is crazy that if the profitability continues to be so low to continue to pump in cash to put up capacity. So Vardhman for sure will cut down, we already announced a cut down on our plans. So if the profitability does not rise out of question that we will mindlessly go on expanding.
- Mitul K:** Yes, thanks, that's all from my side.
- Moderator:** Thank you. The next question is from Dhvani Modi from ICICI Direct, please go ahead.
- Dhvani Modi:** Thank you, sir, my questions have been answered.
- Moderator:** Thank you. The next question is from Ankit Savla from Vallum Capital, please go ahead.
- Ankit Savla:** Afternoon sir, Sir, if you could tell me the proportion of tough loans to the total loan of the company?
- Sachit Jain:** All the long-term loans are tough loans.
- Ankit Savla:** Sir, coming to the...
- Sachit Jain:** Ankit, I'm sorry. 97%, I guess.
- Ankit Savla:** Okay sir. Coming to the other expenses in the P&L account, in this quarter, we had 184 crore vis-à-vis 226 crores in Q1. So where has that number reduced drastically – I mean, 50, 40 crores of number has reduced there.
- Sachit Jain:** One, VSS has gone out. The steel division has gone out. So all expenses, all revenues, electricity has gone out to the new company.
- Ankit Savla:** Okay. Sir, coming to capacity utilization for fabric, in this quarter, what was the capacity utilization?
- Sachit Jain:** 78% for processed fabric and 84% for gray fabric.
- Ankit Savla:** 84% for gray? Okay. Just give me a moment. Sir, what could be the peak revenues for the fabric division because you would have seen the -- revenues have been flat more or less currently?
- Sachit Jain:** Very difficult to predict that because – you know, prices have been fluctuating. So – and prices – if yarn prices continues to remain at this level, the possibility of prices to fall cannot be ruled out. So the current volatility in the business has increased so much, it's very difficult to make

predictions. We have never had this kind of volatility in the business, as you have seen in the last two years. I think it seems as stabilized a bit. Though we are clearly in for higher volatility than what we have been used to.

Ankit Savla: Okay. Sir, but on the fabric side, on the last four quarters, we have made PBDIT of 120 crores on capital employed of almost a 1,000 crores, which is not reflecting the kind of numbers we should be brokering. So what would be your strategy going on how the ROC and ROE in the fabrics division would increase?

Sachit Jain: One – you see, the Budhini expansion which we made, which was the composite mill in Madhya Pradesh, which is spinning, weaving, processing. Now the -- for the process house, all infrastructures including building utilities was in place for two lines whereas we have put in only one line. Moment we add this second line, which is currently the plan, with that the capital gets spread over a bigger volume, to even variable cost marginally come down and see management costs clearly gets better over much bigger volume. So the margins in fabrics are going to improve after this.

Ankit Savla: Okay and – when would that expansion be complete? Sir when would the second line expansion be complete?

Sachit Jain: I think it will be ready by about July and will get stabilized, let's say by second quarter of next year. So third quarter onwards of next year, we will get the performance of the second line.

Ankit Savla: Okay. Sir, coming to the cotton inventory, if you could tell me per kg what was the average cotton inventory price you were having in March and June and as of today?

Sachit Jain: We don't share that value.

Ankit Savla: Okay sir, no issues. Thank you for that question.

Sachit Jain: In the first quarter.

Ankit Savla: Okay.

Moderator: Thank you. Before taking the next question, we would like to remind participants to press “*” and “1” to ask a question. The next question is from Rahul Kapadia from Lucky Securities. Please go ahead.

Rahul Kapadia: Yes, sir, thank you for taking my question. You just said one thing – it's understood that – you know, the margin and overall scenario is not exactly great out there in the industry, but I just wanted to understand if there is actually some volume growth in the domestic consumption?

Sachit Jain: Very difficult to predict that very clearly because one – most of our consumption goes – even what goes to the domestic market ultimately goes to exports. Very little part of Vardhman business goes in for domestic consumption. So – and again, such a fragmented industry that to

figure out exactly what's happening, but overall the sense we seem to be getting is that domestic consumption is definitely increasing. But there is no hard data that we have to support that, but the sense is better.

Rahul Kapadia: Okay. In direct and indirect, what would be Vardhman's total exports if you include the – if you have a reference of your yarn production, which is going in the – indirectly through exports? Your direct exports and indirect exports?

Sachit Jain: I think the cotton yarn, almost 70, 80% of our cotton yarn would be getting exported directly – almost 80% would be getting exported.

Rahul Kapadia: directly and indirectly put together.

Sachit Jain: And fabric, about 70% would be getting exported.

Rahul Kapadia: Okay, okay, okay.

Sachit Jain: This is cotton. Acrylic synthetic yarn, almost 100% -- I mean, larger part is going to domestic market. Polyester cotton yarns also, larger parts will go to domestic market.

Rahul Kapadia: Okay. And sir, just a – too early to ask the question probably, but just to get a sense, with rupee at about 50, 50.50 or 51, does garmenting become a little more competitive as far as India is concerned?

Sachit Jain: Yes and no. If you look at just a rupee value, yes garmenting should become more attractive, but if you look at NREGA and the damage that has done in terms of non-availability of labor and therefore, increase in cost of labor. It's probably made up partly.

Rahul Kapadia: Yes, that's – that would be one of my question that the damage that NREGA and others schemes have caused, that is what is already reflected in lot of numbers. So...

Sachit Jain: Yes, so that has affected the profitability and viability of garment exporters, which are why – look at Bangladesh booming garment export...

Rahul Kapadia: Correct.

Sachit Jain: And India, nobody is even thinking of increasing that.

Rahul Kapadia: Yes, does this rupee help you out doing – you know, in terms of doing better going ahead?

Sachit Jain: It needs truly – We really see to make India competitive in this industry and it needs to go down a little bit more.

Rahul Kapadia: Go down a little bit more?

Sachit Jain: I guess so.

Rahul Kapadia: Yes. Some may be a 55 will help you more than a 50, 51 right now.

Sachit Jain: 50 is better than 45.

Rahul Kapadia: Yes, that's for sure.

Sachit Jain: Yes.

Rahul Kapadia: Okay, Thank you, thank you so much sir. Thank you.

Moderator: Thank you. A reminder to all the participants in the conference; if you wish to ask a question at this time, you may press "*" and "1". As there are no further questions from the participants, I would now like to hand over the conference back to the management for their final remarks.

Sachit Jain: Thank you once again for all of you. We've been very involved audience, lots of answers you have asked. We've continued to do our best, but I think next three to six months still going to be eventful I guess and after that, I'm – we remain have management confident that situation should become better a year, a year and half from now, but next three to six months will really tell us the way we are going forward. We hope that with interest rate beginning to reduce, may be hopefully by March, April next year that will give us a little bit more relief, but otherwise we are trying to do your best. Anyway, thanks everybody.

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