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* I. J. Dhuria

Vardhman Textiles Limited - Joint MD, CEO of Yarn Business Operations & Executive Director

Batlivala & Karani Securities India Pvt. Ltd., Research Division - Research Analyst

Ladies and gentlemen, good day, and welcome to the Vardhman Textiles' Q2 FY '19 Earnings Conference Call hosted by IIFL Capital Limited. (Operator Instructions) Please note that this conference is being recorded.

I now hand the conference over to Mr. Avi Mehta from IIFL Capital Limited. Thank you, and over to you sir.

Avi Mehta, IIFL Research - Assistant VP & Lead Analyst of Consumer Discretionary [2]

Thank you, Lisan. Hi, good afternoon, everyone. On behalf of IIFL, I would like to welcome all of you to the 2Q FY '19 conference call for Vardhman Textiles. From the company we have with us the key senior management, including Mr. Neeraj Jain, Joint Managing Director; Mr. I.J. Dhuria, Director, Materials; Mr. Rajeev Thapar, CFO; and Mr. Mukesh Bansal, Senior Vice President, Fabric.

I would now like to hand over the call to the management for their comments. Over to you sir.

Neeraj Jain, Vardhman Textiles Limited - Joint MD, CEO of Yarn Business Operations & Executive Director [3]

Thank you, Avi. Good afternoon, and welcome to all of you for the quarter 2 call of Vardhman Textiles. So we've announced our results yesterday which you have gone through. This has been a period which was -- where the numbers are pretty good and there are internal and external factors for the same.

So first I'll touch a little bit on the external factors. One, in this period, we covered our cotton at -- we covered the cotton in the season at a very, very reasonable prices, and during this period, the prices of cotton increased in a much bigger way because of lots of export of cotton happened from India and the international spike in the prices of raw cotton as well. Two, also the prices increased because the rupee devalued in between. As a result of that, cotton, in a sense, was relative to lower in the Indian scenario. So as a result, the prices were increasing.

With the -- in support of the increase in raw cotton prices, the prices of yarn also started improving because both Indian cotton in the international cotton was improving, as a result, the yarn also started moving up, and as a result of that, the margin expanded. And also in between, since the order has been -- the log-off for some of the orders which were booked earlier, and with the devaluation of the rupee, I think the exchange rate become better and the advantage also came to the company. So these are a couple of external factors, which helped in this period to have the better profitability.

In terms of the operations, for the capacity utilization, I think by and large, we were on target or all utilizations of the capacities. On the yarn side, we were running at about -- at a full capacity utilization. And on the fabric side also, reasonably good capacity utilization, definitely better than the previous periods. So in terms of the selling of products, in terms of our utilization, in terms of the cost factors, everywhere, I think we are by and large on track in terms of the -- in terms of our budget, and there is not any matter of devaluation on that side.

Having said that, I think we'll talk on the future scenarios a little later that what kind of challenges or what kind of issues are inflating as of now. But before that, I'll request our Director of Materials to brief you people on the raw material scenarios in this period and going forward help you on the same. To -- over to Mr. Dhuria.

I. J. Dhuria, Vardhman Textiles Limited - Director of Materials [4]

Good afternoon. In the year 2017, '18, the world cotton production and consumption was more or less the same, that was about 26.9 million tonnes was the production, 26.84 million tonnes was the consumption. However, the world consumption was higher in the previous 2 years, where the -- in the -- in '15, '16 and '16, '17 and where there was a reduction in the global stock by more than 6 million tonnes. In the years 2018, '19, the world consumption is projected to be again increased by 3%, which is likely to be 27.5 million tonnes plus, whereas the world production in 2018, '19, is likely to be around 26 million tonnes. So there is going to be a gap between production and consumption in '18 and '19.

So basically, the stock reduction is taking place in China, where the production is estimated to be around 6 million tonnes and consumption is going to be around 9.2 million tonnes, and China is going to import about 1.5 million tonnes from the globe, and the balance, they will be reducing their stock. Whereas, the stock in the rest of the world is -- production is in the year '18, '19 is likely to be 20.5 million tonnes and consumption will be about 18.5 million tonnes. 1.5 million tonnes will be exported to China. So the -- there will be a small addition of stock in the rest of the world balance sheet.

When we come to the Indian scenario, Indian as far as the CAB number, the opening stock was -- which was about 4.3 million tonnes in '17, '18, and production was 37 million bales, and consumption which has been take of about 31.5 million bales and import is about 1.5 million bales, and that means that with the -- and with export of about 7 million bales in '17, '18, the closing stock is about 4.3 million bales.

With -- in '18, '19, the production is likely to be -- although, the area under the cultivation is more or less the same as that of the last year, but due to a shortfall in monsoon -- of monsoon in the major cotton-producing area, particularly Saurashtra of Gujarat and Marathwada of Maharashtra, the yield this year is likely to be less. No doubt, this year the pest attack is less, but still because of the irregular monsoon in the cotton-producing states, the production is likely to be around 36 million bales according to our estimate, with the same consumption and with the kind of scenario, which is the price difference between the cotton -- Indian cotton and the international market, we are estimating export will be around 5.5 million bales. That means that India -- the country will be having about 4.1 million bales -- even import of about 1.5 million bales, the country will be having about 4.1 million bales closing stock. That will be the same as that of the opening stock.

Neeraj Jain, Vardhman Textiles Limited - Joint MD, CEO of Yarn Business Operations & Executive Director [5]

So that's on the cotton scenario, which we -- which has happened, which is for the year '17, '18 as well as our expectation of '18, '19. But with this kind of balance sheet for the Indian, I think -- and also in between there was an announcement by the government of India for increase in the minimum support price. I think the prices of raw cotton are likely to be a little higher compared to the last year because on the MSP itself, I think, going by the different parameters that's the prices of seed, et cetera, the MSP of cotton may be in the range of about INR 43,500 to INR 44,000 a candy. So which means the prices below that will be a challenge for the government as well as for the industry how the buying happens and what kind of policies the government will adopt in case they are to support it without having any negative impact on the industry as well. So this is on the raw cotton side. As I mentioned, on the yarn side, we kept on running the full capacities and there's no issue in terms of the capacity. Mukesh, can you give some idea on the fabric side also in terms of your capacity utilization and selling position?

Mukesh Bansal, Vardhman Textiles Limited - SVP of Fabric Marketing [6]

Yes, sir. Thank you for the call. Actually in the Q2 as compared to the Q1, some of the capacity expansion happened in our product portfolio, which was not planned as yet. And with the increased capacity, we could also increase the capacity utilization as compared to quarter 1. And the capacity expansion will keep on happening, some portion in Q3 and Q4, and a larger production capacity will be commissioned in the next year as well. So even though, we are seeing that competition is stiffening, but still we'll keep on and then later on to increase the capacity utilization or maintain the current level of utilizations. Though with the new capacity coming up next year, initially there could be some drop in capacity utilization, but the absolute numbers should be on the right range. So that is what I can say at the moment and we can take up the question if there are any.

Over to you Nareej.

Neeraj Jain, Vardhman Textiles Limited - Joint MD, CEO of Yarn Business Operations & Executive Director [7]

Yes, thank you. In addition to this, I think the common question that generally everyone wants to understand that what's the status of our expansion plans as of now. So as we have been mentioning, we have taken a total project of -- total projects worth about INR 1,500 crores, which were to be implemented, and the fabric expansions by and large is on track, and I think most of this will be available to us by the end of this financial year.

The spinning capacity, we have 3 projects going on and I expect the 1 project to be completed by March, another 2 projects will get completed, I think, by May or so. So the -- all these capacity expansion would be completed by May or June. And I think the full utilization for the first 9 month is depending upon how much can we sell on the fabric side especially, because it takes a little time to ramp the capacities.

On the spinning side, we are confident that by the time the operations are -- as and when the capacity comes in, we should be in a position to sell, at least, the content part, though margin can be a little different this year based upon the overall scenario.

So by and large, I think baring the delay of a month or so, by and large our capacities are on track and the next year will see a significant improvement in terms of the volumes, both on the yarn and on the fabric side based upon this expansion which is in place.

So from our side, the first comments are over, so I'll request for the questions, then the other things can be discussed along with the questions asked by the participants. Thank you.

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Questions and Answers

Operator [1]

(Operator Instructions) The first question is from the line of [Ayushi Mohta] from [CDE Research].

Unidentified Analyst, [2]

Sir, how much of your current term loans are financed through TUF?

Rajeev Thapar, Vardhman Textiles Limited - CFO [3]

Right now, all the existing loans are in the TUFs. But the ongoing expansion, which is taking place in MP, those loans are not under the central TUF, but the state subsidies available on those loans.

Unidentified Analyst, [4]

So sir, current term loans, all of them are from TUF, you mean to say?

Rajeev Thapar, Vardhman Textiles Limited - CFO [5]

Yes. Apart from the expansion, which Mr. Neeraj was just explaining of INR 1,500 crores, those loans are in respect of ongoing expansion in MP, those loans are not under central TUF, but they are eligible for state subsidy in Madhya Pradesh.

Unidentified Analyst, [6]

Okay. So sir, so basically the -- so how much of CapEx will be financed through TUF?

Neeraj Jain, Vardhman Textiles Limited - Joint MD, CEO of Yarn Business Operations & Executive Director [7]

50%.

Unidentified Analyst, [8]

50%?

Neeraj Jain, Vardhman Textiles Limited - Joint MD, CEO of Yarn Business Operations & Executive Director [9]

Yes.

Unidentified Analyst, [10]

Sir, your total CapEx target was INR 1,400 crores, right, for FY '19 and FY '20?

Neeraj Jain, Vardhman Textiles Limited - Joint MD, CEO of Yarn Business Operations & Executive Director [11]

Correct.

Unidentified Analyst, [12]

So sir, as you mentioned that apart from INR 1,500 crores of expansion, so that is included in the INR 1,400 crores CapEx, right?

Neeraj Jain, Vardhman Textiles Limited - Joint MD, CEO of Yarn Business Operations & Executive Director [13]

Yes, yes, total INR 1,500 crore as of now.

Unidentified Analyst, [14]

Okay. So right now -- so you said that it won't be -- that is not financed through TUF?

Neeraj Jain, Vardhman Textiles Limited - Joint MD, CEO of Yarn Business Operations & Executive Director [15]

No, that will be financial TUF, but it is the state TUF rather than the central TUF. So the state of Madhya Pradesh offered a subsidy for the loans taken for all the expansions in the state of Madhya Pradesh, and most of our expansions are happening in Madhya Pradesh, so all the loans we are taking will be eligible for the state TUF -- states internal subsidy.

Unidentified Analyst, [16]

Okay. And sir, what was the rationale of raising funds through NCDs of almost INR 500 crores last fiscal?

Neeraj Jain, Vardhman Textiles Limited - Joint MD, CEO of Yarn Business Operations & Executive Director [17]

It was only to augment the long-term working capital and the normal CapEx.

Unidentified Analyst, [18]

But sir, wouldn't it be better to borrow from term loans?

Neeraj Jain, Vardhman Textiles Limited - Joint MD, CEO of Yarn Business Operations & Executive Director [19]

No, term loans, we are not comprising on the term loans, so whatever is the eligibility under TUF under term loans that's utilized to the fullest extent. And it was only our feeling was: one, we require the long-term working capital also (inaudible) rate of interest may start going up, so we took a call by borrowing this INR 500 crore, so that during this period there is not much of an adverse impact on the financials of the company.

Unidentified Analyst, [20]

Okay. But sir, don't you think like since these NCDs are not to be repaid after a very long period of time, so once you start taking more of NCDs or more of that, the cash outflow will increase? Like, if you would have taken term loan, you would have more longer period of time to repay it?

Neeraj Jain, Vardhman Textiles Limited - Joint MD, CEO of Yarn Business Operations & Executive Director [21]

No, but then the cost would have been same. And we were quite comfortable with this moratorium. In any case, there's no immediate requirement of cash, it was only keeping in view that some liquidity we wanted to maintain extra, so that if tomorrow any opportunity comes in, that the company should have sufficient cash available.

Rajeev Thapar, Vardhman Textiles Limited - CFO [22]

And also, if you see that rate of interest on our NCD is 7.69%, which is very competitive as of now.

Neeraj Jain, Vardhman Textiles Limited - Joint MD, CEO of Yarn Business Operations & Executive Director [23]

Yes, which is much lower compared to -- so this was one thought process that in case we raised the money at this stage, when we raise it, probably our feeling was that since the rate of interest may go up in the country, so we will take the advantage of the same. And as of now, at least, it is favoring our view which we have taken at that stage.

Unidentified Analyst, [24]

Okay. And sir, how do you allocate capital to changes in your working capital arising out of changes in your inventory in the first half of any financial year?

Neeraj Jain, Vardhman Textiles Limited - Joint MD, CEO of Yarn Business Operations & Executive Director [25]

No, it is our normal working capital so we don't have any specific purpose of allocating that capital. So whatever is the capital reduction of the inventory reduction happen, that reduces our working capital borrowing. And once now the cotton season starts going in, we'll be utilizing the same for the purpose of our inventory buildup. And in between, if there is a net-net surplus, we'll be investing in the short-term, the group funds, et cetera, so that by the time we require it for our normal working capital, we will be liquidating the same.

Operator [26]

(Operator Instructions) The next question comes from the line of Rajesh Kothari from Alf Advisors.

Rajesh Kothari, [27]

Can you just explain a little bit, I just missed your first 2 opening remarks because in conflict with technical delay. The reason for expansion in margins, I heard that you said there is some impact of ForEx, there is some impact of better realization. So is it possible to do a little bit further analysis that how much of it is because of the currency, how much of it is the better realization? And how do you see these margins going right?

Neeraj Jain, Vardhman Textiles Limited - Joint MD, CEO of Yarn Business Operations & Executive Director [28]

It will be very difficult to bifurcate into all these actions. But in general, we said, since our -- we covered our cotton in the season, which was at the market price, which was -- which ultimately since the cotton prices increased, so our cost was much less. Two, the rupee also devalued in between, so all the contracts which we have done for the yarn business that there was an advantage because we were not log on the foreign exchange also, and we are relatively covered, very less foreign exchange. And third, the yarn prices also increased because both the international and domestic prices of raw cotton were increasing, as a result of that during that period, there was a momentum on the yarn prices also, which gave -- which supported the margins to expand in this period.

Rajesh Kothari, [29]

Sir, with this -- your currency remaining after depreciation is still remaining at same level, so does this mean that it will continue to offer you better margins?

Neeraj Jain, Vardhman Textiles Limited - Joint MD, CEO of Yarn Business Operations & Executive Director [30]

Not really. Partially yes, but not really, because as of now -- there are 2 factors, one is the -- only the currency, and second is the -- also the prices of yarn. So as of now, the prices of yarn are under a little pressure because of relatively less demand from China, which is happening because of the -- some fear of U.S.-China trade war. So -- but had this rupee not been devalued, the things would have been very difficult as of now. So this is definitely supported us to maintain the good numbers during this period and even in future also.

Rajesh Kothari, [31]

So are you trying to say that some benefit will be retained and some benefit will be -- something like that, am I right?

Neeraj Jain, Vardhman Textiles Limited - Joint MD, CEO of Yarn Business Operations & Executive Director [32]

Correct. Okay, yes.

Rajesh Kothari, [33]

My second question is on CapEx. Can you a little bit give some details on how much -- CapEx is increasing to how much, to how much? And by when it will be available -- how much of it will be available in each fee slice for both the yarn as well as for fabric?

Neeraj Jain, Vardhman Textiles Limited - Joint MD, CEO of Yarn Business Operations & Executive Director [34]

On the spinning side, we are adding capacity worth about 100,000 spindles, and out of that I think 30% would be available to us by March, and the remaining 70% would be available to us by May also. On the fabric side, our capacity, which was about...

Mukesh Bansal, Vardhman Textiles Limited - SVP of Fabric Marketing [35]

Can I answer that?

Neeraj Jain, Vardhman Textiles Limited - Joint MD, CEO of Yarn Business Operations & Executive Director [36]

Yes, yes, please.

Mukesh Bansal, Vardhman Textiles Limited - SVP of Fabric Marketing [37]

At least the financials 2017, '18, our capacity was about 120 million meters for finished fabrics. And this year it was about 140 million. And next year, another 25 million to 30 million would be added. So next year, we can just practically really have about 170 million meters of capacity, finished fabric.

Rajesh Kothari, [38]

So 170 million meters will be available full year from April, August?

Neeraj Jain, Vardhman Textiles Limited - Joint MD, CEO of Yarn Business Operations & Executive Director [39]

Yes, I think most of this would be available, most of this. On the spinning, I have already told, I think by -- after the first quarter of next year, it will be available.

Rajesh Kothari, [40]

And the -- right now, out of 140 million meters, what is the current capacity utilization?

Neeraj Jain, Vardhman Textiles Limited - Joint MD, CEO of Yarn Business Operations & Executive Director [41]

Mukesh.

Mukesh Bansal, Vardhman Textiles Limited - SVP of Fabric Marketing [42]

On fabric this quarter, we have touched almost like 93%, 94% capacity utilization.

Rajesh Kothari, [43]

From 140 million meters, am I right? Which 140 million is this year talking about number, right?

Mukesh Bansal, Vardhman Textiles Limited - SVP of Fabric Marketing [44]

Yes.

Rajesh Kothari, [45]

Understood. So next year, as we move from 140 million to 170 million, do you think at least 50% to 60% utilization in the first 12 months or it can be higher? I'm talking about the expanded capacity.

Mukesh Bansal, Vardhman Textiles Limited - SVP of Fabric Marketing [46]

Yes, at the moment, we are taking at least a target to utilize about 50%. So if we can do that, that will be a good figure directionally, I would say.

Rajesh Kothari, [47]

Understood. And how we are seeing the realization from fabrics?

Mukesh Bansal, Vardhman Textiles Limited - SVP of Fabric Marketing [48]

Realizations are in the -- broadly those are in line with the increase in the yarn prices. But a lot of things are happening because the rupee depreciation has helped a lot at the moment. But in the long run, we will not be able to retain this benefit. So in the new contracts, some price benefit may have to be passed onto the customers. So this will all depend how the competing in a country that's given. You know what is happening in Pakistan, China or Bangladesh.

Rajesh Kothari, [49]

Because what I understand is that in fabric it's going to be very competitive considering that the new -- I mean, not the new, the old players like Pakistan and many other players, I thought that realize an increase is not very easy, but you are saying that you are able to held a better realization because of the currency depreciation. Do you think it is sustainable? Or you have to completely pass it through?

Mukesh Bansal, Vardhman Textiles Limited - SVP of Fabric Marketing [50]

No, I mentioned, that earlier we had -- the context were already booked. So some realization has flown into the P&L. But then, in the new context, certainly something will have to be passed onto the customers.

Rajesh Kothari, [51]

Okay. So do you give the quarterly fabric revenue -- or processed fabric revenue and yarn revenue due to...

Neeraj Jain, Vardhman Textiles Limited - Joint MD, CEO of Yarn Business Operations & Executive Director [52]

No, we don't share it separately, please.

Operator [53]

The next question is from the line of Arjun Sengar from Reliance Mutual Fund.

Arjun Sengar, Reliance Nippon Life Asset Management Limited - Research Associate [54]

First question was, like you said, your cotton procurement was at the lower price. So you are saying on a -- versus Q1, you're saying your cotton cost was lower, is that what you mean?

Neeraj Jain, Vardhman Textiles Limited - Joint MD, CEO of Yarn Business Operations & Executive Director [55]

No, I said in this period, our cotton, since we covered in this season, so our cotton prices were less compared to the market prices of cotton.

Arjun Sengar, Reliance Nippon Life Asset Management Limited - Research Associate [56]

Okay, okay. But it is safe to assume that for the next 1 to 2 quarters, your cotton cost would stay at the same level as quarter 2?

Neeraj Jain, Vardhman Textiles Limited - Joint MD, CEO of Yarn Business Operations & Executive Director [57]

No, no, no. We have already exhausted most of the cotton and the cotton season starts in India somewhere in November, so we had covered till before that. I think we have already started buying the new cotton, which will be partially bought and consumed in this quarter. And the next year -- next quarter, practically will be fully on the new cotton.

Arjun Sengar, Reliance Nippon Life Asset Management Limited - Research Associate [58]

Okay. So our cotton cost will increase?

Neeraj Jain, Vardhman Textiles Limited - Joint MD, CEO of Yarn Business Operations & Executive Director [59]

Yes.

Arjun Sengar, Reliance Nippon Life Asset Management Limited - Research Associate [60]

Okay. And secondly sir, in the yarn market, like you said the prices had been little soft for the last 1, 1.5 months because demand from China is a little weak, and I think you mentioned that even in the last conference call. So has there been any change in that uncertainty in demand from China or that continues? Is there any visibility from some improvement going forward?

Neeraj Jain, Vardhman Textiles Limited - Joint MD, CEO of Yarn Business Operations & Executive Director [61]

No, there's no improvement. As of now, the Chinese demand continues to be very low. And as a result of that, I think it's a little challenge for the spinning mills in India how and where to sell. And to that extent, the margins are a little under pressure.

Arjun Sengar, Reliance Nippon Life Asset Management Limited - Research Associate [62]

Okay. And last time you had mentioned that you were not able to fully pass on the yarn prices in your fabric segment, which was causing some pressure.

Neeraj Jain, Vardhman Textiles Limited - Joint MD, CEO of Yarn Business Operations & Executive Director [63]

Well, that's because since the yarn prices will be coming down, fabric doesn't come down in the same proportion. So as of now, I think going by the normal trend, the fabric margins would be a little better compared to the spinning.

Arjun Sengar, Reliance Nippon Life Asset Management Limited - Research Associate [64]

Sure. And sir, in your fabric segment, can you tell us what is the rough percentage split between your processed fabric sales and your grey fabric sales in terms of revenue?

Neeraj Jain, Vardhman Textiles Limited - Joint MD, CEO of Yarn Business Operations & Executive Director [65]

90% is the -- 90% -- 85%, 90% is the processed sale only. So the grey sale is only the surplus capacity, which we have, which is not generally more than 10% to 15%.

Arjun Sengar, Reliance Nippon Life Asset Management Limited - Research Associate [66]

Okay, okay. And sir, any visibility on this -- the China. I think now that they have mostly exhausted their cotton stock, is there any visibility coming on structurally stronger yarn imports on there? Something along those lines?

Neeraj Jain, Vardhman Textiles Limited - Joint MD, CEO of Yarn Business Operations & Executive Director [67]

As of now, no. Because there still are lots of cotton available to them. So I think, this year they'll be exhausting the major part of their reserved cotton. And maybe next year onward, the situation may come in, either they decide to import lots of cotton, which looks like a little difficult as of now going by the trend they have shown. So there could be a possibility that they may -- the yarn import in China may be stronger once they are exhausting onto their cotton stocks. But that's only our estimate.

Arjun Sengar, Reliance Nippon Life Asset Management Limited - Research Associate [68]

Okay. And sir, in your inventory, which model do you use? Do you use first in, first out model for your inventory?

Neeraj Jain, Vardhman Textiles Limited - Joint MD, CEO of Yarn Business Operations & Executive Director [69]

Who?

Arjun Sengar, Reliance Nippon Life Asset Management Limited - Research Associate [70]

For your cotton inventory?

Neeraj Jain, Vardhman Textiles Limited - Joint MD, CEO of Yarn Business Operations & Executive Director [71]

Yes, yes.

Arjun Sengar, Reliance Nippon Life Asset Management Limited - Research Associate [72]

First in, first out?

Neeraj Jain, Vardhman Textiles Limited - Joint MD, CEO of Yarn Business Operations & Executive Director [73]

Weighted average, weighted average.

Arjun Sengar, Reliance Nippon Life Asset Management Limited - Research Associate [74]

Okay. And just one last question. Like you said, cotton cost is going to increase and yarn is little subdued, and the ARPU passed on some of the benefit, but important the rupee. So the margin -- I mean, as we see it right now in the second half are likely to be lower than what we did in Q2?

Neeraj Jain, Vardhman Textiles Limited - Joint MD, CEO of Yarn Business Operations & Executive Director [75]

Normally, yes. Unless -- I mean, it's only starting of the month, but if the yarn demand -- because already the inventory in China on the yarn, the pipeline is very, very empty. So any demand comes in, there could be a possibility of a different situation also. But going by today's situation, yes what you are mentioning is correct.

Arjun Sengar, Reliance Nippon Life Asset Management Limited - Research Associate [76]

Okay. And anything can be said about the domestic demand supply that you have been saying will improve over the next 2 to 3 years, anything over there?

Neeraj Jain, Vardhman Textiles Limited - Joint MD, CEO of Yarn Business Operations & Executive Director [77]

Demand -- domestic demand supply continues to be good. So there's not much of an issue. But again, the prices of domestic yarn will always be determined by the export prices. So if the prices of export are less, that will translate into the yarn selling prices in the domestic market as well. But in terms of the demand, et cetera, I think it's reasonably okay.

Arjun Sengar, Reliance Nippon Life Asset Management Limited - Research Associate [78]

And sir, the total capacity of the country, I understand is about 15 million spindles.

Neeraj Jain, Vardhman Textiles Limited - Joint MD, CEO of Yarn Business Operations & Executive Director [79]

Yes.

Arjun Sengar, Reliance Nippon Life Asset Management Limited - Research Associate [80]

Now annually, sir, how much is the reduction that is happening?

Neeraj Jain, Vardhman Textiles Limited - Joint MD, CEO of Yarn Business Operations & Executive Director [81]

Close to about 2 million spindles. Rather, the total supply of spindles in India is about 2.5 million spindles. We expect out that 0.5 million spindles to 0.75 million spindles is going into the modernization of the existing capacity and about 1.5 million spindles are being added new to the system, and majority of them have come into the Gujarat because of the state subsidy has -- because of the incentives given by the state. But as of now, those schemes are also over. So the Gujarat scheme is also finished in the month of September, as of now.

Arjun Sengar, Reliance Nippon Life Asset Management Limited - Research Associate [82]

Right. And sir, of late, if you look the commentary that is coming from some of the branded apparel players, the demand in the domestic market has been a little soft for branded apparel. Is that a factor that is -- I mean, is that a meaningful factor for us to monitor to see the demand for yarn going forward?

Neeraj Jain, Vardhman Textiles Limited - Joint MD, CEO of Yarn Business Operations & Executive Director [83]

It is a very, very meaningful factor for everyone of us. But it has a -- there are 2 factors: one, if the demand is less, then definitely the requirement of the fabric or requirement of the yarn or the intermediary product will also come down. So as such, Vardhman may not have a direct impact, because we are still in a position to sell whatever we are producing. But if the demand is less, definitely, it will put pressure on the prices. It will pressure to the other mills, which will keep on reducing the prices, and it will ultimately be impacting the margins. So in terms of the volumes, I don't think we have a direct -- any major concern. But yes, it will ultimately be impacting the margins in case the demand doesn't pick up.

Arjun Sengar, Reliance Nippon Life Asset Management Limited - Research Associate [84]

Anything on the acquisition, sir? Any update over that?

Neeraj Jain, Vardhman Textiles Limited - Joint MD, CEO of Yarn Business Operations & Executive Director [85]

No, nothing as of now on record. So we are -- since we did not get -- I mean, when we were really not very keen on some of the assets which were available, so we we are expanding our own capacity because we found lots of opportunities in the segment that we are operating. Our customer base is increasing, so they wanted to have the better -- more yarn, more fabrics. So we are expanding our capacity. And also, since the state of Madhya Pradesh, where we are expanding, there are lots of incentives available. So we feel the -- all these expansion are going to support us in the next 1 to 2 years in a big way.

Arjun Sengar, Reliance Nippon Life Asset Management Limited - Research Associate [86]

Sure. And this capacity commissioning, which will happen, and I guess you said the timeline that is next year. Based on that sir, what is the overall growth that one can expect? Is it, like 7%, 8% overall growth -- volume growth?

Neeraj Jain, Vardhman Textiles Limited - Joint MD, CEO of Yarn Business Operations & Executive Director [87]

I think ultimately, the major volume growth will come from the fabric only, because whatever yarn being added, I think 60% of that will go internally into the fabric, and it's only 40%, which we'll be selling directly in the marketplace. So our overall capacity expansion is close to about 15% of our existing capacity in yarn. So expect, 5% to 6% growth will happen on the yarn side and a similar growth will happen on the fabric side as well. So 7%, 8% is the minimum, which should increase in the top line.

Operator [88]

The next question is from the line of Jayant Mamania from Care PMS.

Jayant Mamania, [89]

Sir, this quarter, the operating margin of 23% against 18.5% in Q1, and 17.5% year-on-year. So our processed fabric products then also went up by 13% and also -- sales also. And you said we had a low-price inventory advantage also. So what is your operating margin guidance for the next 2, 3 quarters?

Neeraj Jain, Vardhman Textiles Limited - Joint MD, CEO of Yarn Business Operations & Executive Director [90]

See, we have never given out any guidance on a quarter-to-quarter basis. Our long-term thought has always been, which we have been sharing with all investors, that our range of margins will be between 18% to 20% -- 18% to 22% on an annualized basis, still maintain on an annualized basis, this is the return that we are expecting and this the fact we want to give as a guidance.

Jayant Mamania, [91]

Sir, this year -- this quarter the margins were around 23%. Was this an expectational quarter?

Neeraj Jain, Vardhman Textiles Limited - Joint MD, CEO of Yarn Business Operations & Executive Director [92]

Yes, this was an exceptional because the market prices of cotton increased, whereas we had covered it at a lower prices, so definitely there's a gain on account of that.

Jayant Mamania, [93]

Sir, you said our inventory is almost exhausted and the new -- we will be buying -- this buying will start from November, but our balance sheet is carrying stock of around INR 1,437 crores. So I think, which is around -- which will cover around 2 quarters?

Neeraj Jain, Vardhman Textiles Limited - Joint MD, CEO of Yarn Business Operations & Executive Director [94]

So balance -- no, no. The balance sheet, you are saying 30th September?

Jayant Mamania, [95]

Yes, yes, yes.

Neeraj Jain, Vardhman Textiles Limited - Joint MD, CEO of Yarn Business Operations & Executive Director [96]

No, but those inventories will have the finished goods and the U.S. piece also. So that's not only the raw cotton. So they'll have the manmade fiber, they'll the finished goods, they'll have the work in progress and some part of the raw cotton as well.

Jayant Mamania, [97]

Okay, okay. Yes, so what will be the impact of U.S.-China trade war, considering China is one of the biggest importer of cotton and yarn, and exporter of garments and fabrics, and is U.S. is the biggest importer -- how India will be impacted?

Neeraj Jain, Vardhman Textiles Limited - Joint MD, CEO of Yarn Business Operations & Executive Director [98]

You see, if you look at the overall consumption, our belief is with any trade war happening, ultimately, the capacities or the consumption or the production centers will keep on changing. So the overall demand of the world will not change. So suppose tomorrow if because of this fight, China is not in a position to supply the government of U.S.A., some other country will pick up. But the overall consumption will remain same by and large. Two, there is no other country as of now in next 2, 3, 4 years, which can take position of China because the capacities over there are too big. It is not possible for any single country or any set of countries to replace China, because the kind of capacity they have, the kind of export base they have, it's going to very difficult for any other country to replicate that. Yes, in the medium term, 2 to 3 years, 4 years, there will be some countries which can get benefit out of that. India could be one, Bangladesh could be another and countries like Sri Lanka or those countries can also take advantage of that. But I think those are medium-term things. In the short-term, I don't think any of -- one of us is readily available to take advantage of this situation if this war continues.

Jayant Mamania, [99]

Okay. So how is the cotton prices as compared to domestic cotton prices as compared to global cotton prices?

Neeraj Jain, Vardhman Textiles Limited - Joint MD, CEO of Yarn Business Operations & Executive Director [100]

It is in line. Generally the domestic prices are always $0.08 to $0.10 lower than the international prices per pound. So as of now, also, I think the similar situation is there.

Operator [101]

The next question is from the line of Prerna Jhunjhunwala from B&K Securities.

Prerna Jhunjhunwala, Batlivala & Karani Securities India Pvt. Ltd., Research Division - Research Analyst [102]

I was just wanting to understand what is happening in the textile market full-year cycle demand, what has been discussed in the call right now. But in Q1, we had pressure in the fabric margins because yarn prices were higher. So what exactly happened within the fabric business in this quarter? And I would also like to understand since 30% of your yarn is blended yarns, how has been the margins there as compared to cotton yarn? Even if you don't want to share your company, as per industry also is fine.

Neeraj Jain, Vardhman Textiles Limited - Joint MD, CEO of Yarn Business Operations & Executive Director [103]

Okay. The second quarter, in terms of fabric margins, it was a little under pressure because of the yarn prices whatever increase happened, that would not be passed on by the fabric to their customers. Two, the fabric booking is a little on a higher side, so generally the -- there will always be a time lag between by the time they can pass on the market prices to the customers. So they'll have to absorb a little higher prices, because the yarn prices for them, they'll be buying from the yarn segment on a month-to-month basis. Having said that, I think it's a time where -- when the yarn prices have started coming down and they have the booking, so the fabric as of now, the margins would be better. So in a full year cycle, where the prices are increasing or reducing, I think on a full year basis, there is neither an advantage nor a disadvantage to both the segments, because if the prices are increasing, fabric will lose and vice versa. Two, in terms of the blended yarns, I think by and large, the blended yarn profitability during this period has been in line. Rather, a couple of months, the blended yarn's profitability was better even compared to the cotton yarn -- 100% cotton yarn, by the -- going by the industry numbers as well.

Prerna Jhunjhunwala, Batlivala & Karani Securities India Pvt. Ltd., Research Division - Research Analyst [104]

Sir, was it because of increasing yarn prices as compared to the inventory that their industry had a 1 month inventory because raw material prices were...

Neeraj Jain, Vardhman Textiles Limited - Joint MD, CEO of Yarn Business Operations & Executive Director [105]

Yes, because raw material prices both since raw cotton was increasing and in this period since the crude was also increasing so the prices of synthetic fibers were also going up. So everyone, whosoever there is, whatever is the stock available in the system they'll keep on getting advantage and because you are selling your yarn based upon the new prices of raw materials.

Prerna Jhunjhunwala, Batlivala & Karani Securities India Pvt. Ltd., Research Division - Research Analyst [106]

Okay. And what will be the current scenario sir, in all these -- in yarn, cotton and blended yarn?

Neeraj Jain, Vardhman Textiles Limited - Joint MD, CEO of Yarn Business Operations & Executive Director [107]

The probability by and large is comparable.

Prerna Jhunjhunwala, Batlivala & Karani Securities India Pvt. Ltd., Research Division - Research Analyst [108]

Comparable to normalized periods?

Neeraj Jain, Vardhman Textiles Limited - Joint MD, CEO of Yarn Business Operations & Executive Director [109]

No, between yarn -- between the blended yarns and the 100% cotton yarns, the spread is comparable.

Prerna Jhunjhunwala, Batlivala & Karani Securities India Pvt. Ltd., Research Division - Research Analyst [110]

The spread is comparable, okay, okay. And sir, you've -- how do we look at -- sorry, I would like to understand the fabric capacity addition in this quarter that has happened?

Neeraj Jain, Vardhman Textiles Limited - Joint MD, CEO of Yarn Business Operations & Executive Director [111]

Mukesh.

Mukesh Bansal, Vardhman Textiles Limited - SVP of Fabric Marketing [112]

On the fabric side, some expansion has happened on the print side and the yarn-based fabric.

Prerna Jhunjhunwala, Batlivala & Karani Securities India Pvt. Ltd., Research Division - Research Analyst [113]

Okay. Any loom addition happening in this quarter?

Mukesh Bansal, Vardhman Textiles Limited - SVP of Fabric Marketing [114]

(inaudible)

Prerna Jhunjhunwala, Batlivala & Karani Securities India Pvt. Ltd., Research Division - Research Analyst [115]

Sorry. Sir, I can't hear you.

Mukesh Bansal, Vardhman Textiles Limited - SVP of Fabric Marketing [116]

Do you hear me now.

Prerna Jhunjhunwala, Batlivala & Karani Securities India Pvt. Ltd., Research Division - Research Analyst [117]

Yes, now I can hear you.

Mukesh Bansal, Vardhman Textiles Limited - SVP of Fabric Marketing [118]

Yes, the loom expansion has started happening, but the real impact of that will start coming in (inaudible).

Neeraj Jain, Vardhman Textiles Limited - Joint MD, CEO of Yarn Business Operations & Executive Director [119]

(inaudible)

Mukesh Bansal, Vardhman Textiles Limited - SVP of Fabric Marketing [120]

Hello.

Prerna Jhunjhunwala, Batlivala & Karani Securities India Pvt. Ltd., Research Division - Research Analyst [121]

Sir, we missed you again.

Mukesh Bansal, Vardhman Textiles Limited - SVP of Fabric Marketing [122]

I see. Actually I'm traveling so maybe -- I said that some loom expansion has started happening. The full advantage of that will come in Q3 and Q4.

Prerna Jhunjhunwala, Batlivala & Karani Securities India Pvt. Ltd., Research Division - Research Analyst [123]

Okay. So by Q4, the entire loom addition will happen for the company? Or there is a spill away in FY '20 of this? You would add 220 looms in expansion, right?

Neeraj Jain, Vardhman Textiles Limited - Joint MD, CEO of Yarn Business Operations & Executive Director [124]

I think by and large all these capacity will be available to us by March. So the next year, there is -- I mean, there can be a delay of a month or so in a worst case scenario depending upon the constructions, et cetera. But I think by and large, by March, April we'll be completing most of it.

Prerna Jhunjhunwala, Batlivala & Karani Securities India Pvt. Ltd., Research Division - Research Analyst [125]

Okay. And sir, how are the yarns spread currently or -- because as you mentioned that yarn prices are softer due to softer demand from China and -- but cotton prices have really not corrected much, even with arrival of new season...

Neeraj Jain, Vardhman Textiles Limited - Joint MD, CEO of Yarn Business Operations & Executive Director [126]

So going by the -- no, the season has just started and the arrival has still yet to pick up. So it's a time where the arrivals are not happening and the yarn prices have corrected based upon an expectation of reduction in the cotton prices. So going by the today's cotton prices and yarn prices, it is under pressure.

Prerna Jhunjhunwala, Batlivala & Karani Securities India Pvt. Ltd., Research Division - Research Analyst [127]

Okay. And generally, how much in order book do we have for fabric business? On a normalized basis, how many months?

Neeraj Jain, Vardhman Textiles Limited - Joint MD, CEO of Yarn Business Operations & Executive Director [128]

Normally, about 2 months or so on the fabric side.

Prerna Jhunjhunwala, Batlivala & Karani Securities India Pvt. Ltd., Research Division - Research Analyst [129]

And on the yarn side?

Neeraj Jain, Vardhman Textiles Limited - Joint MD, CEO of Yarn Business Operations & Executive Director [130]

Yarn, export is almost close to about 2 months. Domestic will generally be about a month or so.

Prerna Jhunjhunwala, Batlivala & Karani Securities India Pvt. Ltd., Research Division - Research Analyst [131]

Okay. And last question on the tax rate. This first half, your tax rate had been higher than last year first half. What will be your guidance for full year tax rate that we can expect?

Rajeev Thapar, Vardhman Textiles Limited - CFO [132]

In the first half for this year, it is around 38%. And we hold the same should be for the full year also. Last year, there was the lower rate of tax because in the earlier call -- the end tax, some fee income was getting accrued on which we have provided full deferred tax, which got reversed in the last year. So that was a kind of disparity happening within that 2 halves. But on an ongoing basis, 38% is the rate of tax for first half, and for full year also we are expecting the same rate of tax.

Prerna Jhunjhunwala, Batlivala & Karani Securities India Pvt. Ltd., Research Division - Research Analyst [133]

Around 28% (sic) [38%]?

Neeraj Jain, Vardhman Textiles Limited - Joint MD, CEO of Yarn Business Operations & Executive Director [134]

Yes.

Operator [135]

(Operator Instructions) The next question is from the line of Chetan Thacker from ASK Investments.

Chetan Thacker, [136]

Sir, just one clarification. Just wanted to know what will be the yarn capacity after expansion in metric tonnes per day?

Neeraj Jain, Vardhman Textiles Limited - Joint MD, CEO of Yarn Business Operations & Executive Director [137]

They will be close to about 650 tonnes per day.

Operator [138]

The next question is from the line of Arjun Sengar from Reliance Mutual Fund.

Arjun Sengar, Reliance Nippon Life Asset Management Limited - Research Associate [139]

Just one data point. In fabric, what percentage is exported?

Neeraj Jain, Vardhman Textiles Limited - Joint MD, CEO of Yarn Business Operations & Executive Director [140]

About 35% to 38%.

Operator [141]

(Operator Instructions) The next question is from the line of Avi Mehta from IIFL Securities Limited.

Avi Mehta, IIFL Research - Assistant VP & Lead Analyst of Consumer Discretionary [142]

Sir, on the fabric, on the cotton side, the way I heard you, you said MSP remains a possible cause of concern on pricing, and yarn prices are on the way down. Now, we have seen a similar situation where artificially, cotton prices were on the high in domestic market and the mills had no option but to import. Do you think that is the way forward or how do you see the market evolving in that situation?

I. J. Dhuria, Vardhman Textiles Limited - Director of Materials [143]

Because of full MSP, our pricing with the today parity is likely to be around INR 45,000 to INR 46,000 a candy. And kind of with the present dollar-rupee relationship, these prices are likely to be in the $0.78 to $0.80 a pound. Now, with their present situation which is going on at the moment in the [ICE]. At the moment, the China is canceling its already booked [orders] for the '18, '19, which is putting pressure on the -- ICE is going down. China is rather has slowed down its buying from the other markets as well. They are sourcing now alternatively either from India or from Brazil or from Australia. So our prices are augmented the gap between of our prices in terms of U.S. cents and the gap between the international price. This will -- this will be narrowed down. And over a period of time, it is possible that our prices will be just in line with the international market, then it will make sense for the coastal mills to buy American cotton, which will be available at a cheaper price because the cotton, that cotton was -- is not being sold to -- China is not buying those American cotton. So either Bangladesh or Vietnam or Indonesia, these markets are buying this cotton. They are the main consumer for that cotton. So the basis for Chinese cotton will go down. And at some time it will make sense for the coastal mill to buy American cotton as compared to the Indian cotton. So Indian cotton, if it is available at $0.80 a pound, if cotton -- say, ICE goes down below $0.75, $0.72, and they are able to get a cotton at $0.83, $0.85 a pound, they will not buy Indian cotton, they will buy the American cotton. So it will make sense for other coastal mills to buy -- imported cotton, particularly from America.

Avi Mehta, IIFL Research - Assistant VP & Lead Analyst of Consumer Discretionary [144]

So sir, in that situation, the way I hear you, cotton is essentially not -- either there are more tailwinds for cotton pricing rather than headwinds. And in such a situation, why would you expect -- I think, demand is -- is it structurally down or do you think it's more a cyclical issue of China, for India especially?

I. J. Dhuria, Vardhman Textiles Limited - Director of Materials [145]

At the moment, structurally it is down.

Avi Mehta, IIFL Research - Assistant VP & Lead Analyst of Consumer Discretionary [146]

But why sir? What has driven this structure to fail?

I. J. Dhuria, Vardhman Textiles Limited - Director of Materials [147]

Because of the trade uncertainty.

Avi Mehta, IIFL Research - Assistant VP & Lead Analyst of Consumer Discretionary [148]

But if the fabric demand is there, would it not be just a timing thing?

Neeraj Jain, Vardhman Textiles Limited - Joint MD, CEO of Yarn Business Operations & Executive Director [149]

Yes, it is a timing thing only. But till the time it gets sorted out, I think everyone in the system is trying to reduce inventories, so the actual pipelines are much weaker, much lower. So even if the demand comes, I think certainly there would be a good demand as well.

Avi Mehta, IIFL Research - Assistant VP & Lead Analyst of Consumer Discretionary [150]

Okay. So you're saying that there would be actually a spike whenever that happens. Would that be a fair thing?

Neeraj Jain, Vardhman Textiles Limited - Joint MD, CEO of Yarn Business Operations & Executive Director [151]

Yes.

Avi Mehta, IIFL Research - Assistant VP & Lead Analyst of Consumer Discretionary [152]

Okay, sir. Fair. And second was around the fabric side. Now, as I see in the quarter, there has been a significant increase in the grey fabric sales versus what has traditionally been the case. Has that got to do with capacity additions? Grey volumes have actually moved up.

Neeraj Jain, Vardhman Textiles Limited - Joint MD, CEO of Yarn Business Operations & Executive Director [153]

Not really.

Avi Mehta, IIFL Research - Assistant VP & Lead Analyst of Consumer Discretionary [154]

Versus last quarter essentially, I was looking at. So if I look at the total fabric volumes, it was about 47 -- sorry, 48 million meters, and grey is only -- at process, still at 31 million meters. So 17 million meters is now the grey sales?

Rajeev Thapar, Vardhman Textiles Limited - CFO [155]

Grey sale is including internal transfers also with the materials which had been transferred for processing.

Avi Mehta, IIFL Research - Assistant VP & Lead Analyst of Consumer Discretionary [156]

There remains a difference if you see, which was -- we are doing 11 million meters, 12 million meters, but you also -- I mean, 17 million meters is what it has gone. So what had happened? Is that...

Neeraj Jain, Vardhman Textiles Limited - Joint MD, CEO of Yarn Business Operations & Executive Director [157]

In this, I think, there's some stock increase because the sales of greys on process is on the lower side, but at the time, there is some stock increase in this period, which is because of, I think, some temporary stock increase, which will be going as per the letter of credit, et cetera, into next month. But the grey fabric on a quarter-on-quarter basis sales -- the production has increased by -- from 435 million meters -- 443 million meters to 47 million meters.

Avi Mehta, IIFL Research - Assistant VP & Lead Analyst of Consumer Discretionary [158]

Sir, correct. I mean, on a quarter-on-quarter...

Neeraj Jain, Vardhman Textiles Limited - Joint MD, CEO of Yarn Business Operations & Executive Director [159]

And that the processed also from 30 million meters has gone 34 million meters. So whatever has increased, that's gone on the processed fabric.

Avi Mehta, IIFL Research - Assistant VP & Lead Analyst of Consumer Discretionary [160]

Okay, sir. Sir, I essentially was looking at the sales number. I understand your production argument, but why the sales number is so different?

Neeraj Jain, Vardhman Textiles Limited - Joint MD, CEO of Yarn Business Operations & Executive Director [161]

The sales includes the internal transfer.

Avi Mehta, IIFL Research - Assistant VP & Lead Analyst of Consumer Discretionary [162]

So you're saying that it has probably resulted in higher processing and it is more for orders, which would eventually come down?

Neeraj Jain, Vardhman Textiles Limited - Joint MD, CEO of Yarn Business Operations & Executive Director [163]

Yes, yes, yes.

Avi Mehta, IIFL Research - Assistant VP & Lead Analyst of Consumer Discretionary [164]

And lastly, sir, the competitive intensity, bridged through -- some more light on the fabric competitive industry, what exactly has happened over there?

Neeraj Jain, Vardhman Textiles Limited - Joint MD, CEO of Yarn Business Operations & Executive Director [165]

Mukesh?

Mukesh Bansal, Vardhman Textiles Limited - SVP of Fabric Marketing [166]

Yes, can you repeat the question please?

Avi Mehta, IIFL Research - Assistant VP & Lead Analyst of Consumer Discretionary [167]

Sir, competitive intensity you highlighted has increased. So is that a concern right now or what has happened suddenly, which is why the margin might actually come down further, how do you see that playing out?

Mukesh Bansal, Vardhman Textiles Limited - SVP of Fabric Marketing [168]

Actually, the -- a lot of new capacity is also coming up in India and the same is true internationally, like, Bangladesh. Bangladesh used to be a big market for Indian textiles. But now as the learning curve would behave, now Bangladesh is becoming self-sustainance when it comes to the fabric capacity. So the backward integration is happening in Bangladesh as well. And the same thing in India. If you look at in Gujarat side, so lot of independent process houses have come up and with the -- a lot of spinning and loom capacity being coming up. So there is a lot of grey capacity available -- grey fabric available. So you just need to have a process house in order to start making finished fabric, and greys, you can source from the market. So that is what's been happening not so organized manner, but if any organized manner, a lot of capacity is coming up. So that will keep on putting the pressure on the margins of the basic products, at least.

Avi Mehta, IIFL Research - Assistant VP & Lead Analyst of Consumer Discretionary [169]

Sir, but if you have to pass on the currency depreciation, would it be fair that if yarn prices were to move up, you would get the corresponding price increases as well as? Something which first quarter was -- where you got impacted? Hello? Mukesh?

Operator [170]

There line from Mr. Mukesh Bansal has got disconnected.

Neeraj Jain, Vardhman Textiles Limited - Joint MD, CEO of Yarn Business Operations & Executive Director [171]

Yes, can you repeat the question, I'll answer that.

Avi Mehta, IIFL Research - Assistant VP & Lead Analyst of Consumer Discretionary [172]

Neeraj, what I was trying to answer -- to ask is that you highlighted very clearly that this time it was currency depreciation benefits that you got. And going forward, they might have to be passed on. But you still haven't got the price increases per yarn. So would 1Q margin be the right number to look at or there somewhere in between 1Q and Q2? That's what I was trying to get from a price update.

Neeraj Jain, Vardhman Textiles Limited - Joint MD, CEO of Yarn Business Operations & Executive Director [173]

Surely, quarter 1 will be a minimum. And I think it could be anything in between that under normal circumstances.

Avi Mehta, IIFL Research - Assistant VP & Lead Analyst of Consumer Discretionary [174]

Okay. And from a steady state perspective, you highlighted 18% to 22%, but given where we are, would you see margins kind of moving closer to the 1Q level, sir, as we go forward?

Neeraj Jain, Vardhman Textiles Limited - Joint MD, CEO of Yarn Business Operations & Executive Director [175]

It's very difficult. Because cotton season has just started and we are yet to look at and the international prices of cotton keeps on coming down. As of now, MSP is no concern, because the Indian prices are in line with international prices. But if tomorrow, international prices come down by 500 basis points, then how the Indian government will act on the MSP, whether they will be buying and transferring the benefit to the farmers or they'll be forcing the mills to buy it from the market. Now those are the things or those are the questions which are still not answered, and that has a big impact either way. So going by the today's numbers, I think the first quarter should be okay, but it is too early for us to say anything because the season is just starting. And I think next 2 months are more critical in terms of how we cover our cotton and how the cotton behaves, how much cotton gets exported. So I think next 2 months are going to decide more clearly what is likely to be next 8 months to 1 year's perspective.

Avi Mehta, IIFL Research - Assistant VP & Lead Analyst of Consumer Discretionary [176]

Okay, sir. And lastly sir, on the capacity addition, you have done, you said -- you indicated that most of the capacity will come in the first quarter of the next year. So FY '20 growth, I understand, but '21 growth will also be around 7%, 8% because of the 50...

Neeraj Jain, Vardhman Textiles Limited - Joint MD, CEO of Yarn Business Operations & Executive Director [177]

That should be, that should be.

Operator [178]

(Operator Instructions) As there are no further questions, I now hand the conference over to the management for their closing comments.

Neeraj Jain, Vardhman Textiles Limited - Joint MD, CEO of Yarn Business Operations & Executive Director [179]

Yes, thank you very much for all your support you have given to us. And of course, whatever the external advantages are there. But as mentioned earlier also, in terms of our operations or in terms of finding opportunities to improve upon that, I think a whole lot of efforts are going on in finding those opportunities and catching them, doing lots of modernization internally, doing -- looking at the serious optimization process internally. And I think I can assure from the management's perspective or the management side that whatever is possible or which is controllable, we are trying to look at every corner of that and we are working hard on that. The external factors sometimes it's good, sometimes bad, but I think in the medium term, we are optimistic that things are good, are okay. And we've always been thankful to all the investors for your continued support and look forward for the same in the future also.

Operator [180]

Thank you. Ladies and gentlemen, on behalf of IIFL Securities Limited, this concludes today's conference. Thank you for joining us, and you may now disconnect your lines. Thank you.

Neeraj Jain, Vardhman Textiles Limited - Joint MD, CEO of Yarn Business Operations & Executive Director [181]

Thank you.