



“Sutlej Textiles and Industries Limited Q1 FY18 Earnings  
Conference Call”

**July 25, 2017**



**MANAGEMENT: MR. S. K. KHANDELIA – PRESIDENT & CEO**

**MR. BIPEEN VALAME – WHOLE TIME DIRECTOR & CFO**

**Moderator:** Good day, ladies and gentlemen and a very warm welcome to the Sutlej Textiles and Industries Limited Q1 FY18 Earnings Conference Call. Joining us on this call today are Mr. S. K. Khandelia - President and CEO and Mr. Bipeen Valame - Whole Time Director and CFO. As a reminder for the duration of this conference call, all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call, please signal an operator by pressing \* followed by 0 on your touchtone phone. Please note that this conference is being recorded.

I am now glad to hand the conference over to Mr. Bipeen Valame, Whole Time Director and CFO, Sutlej Textiles and Industries Limited for his opening remarks. Thank you and over to you, sir.

**Bipeen Valame:** Thank you very much and good afternoon to everyone, and thanks for joining on this earning call for Q1 FY18. I warmly welcome you all to the conference call for Q1 of financial year 2018. I have with me Shri. S. K. Khandelia ji - President and CEO of Sutlej Textiles and also our investor advisor from Stellar IR. The investor presentation, we have uploaded on the exchanges and I hope all of you got an opportunity to go through the presentation.

During Q1 FY18, the company reported total income of 659 crores as compared to 561 crores Q1 FY17. Sales volume for yarn during Q1 FY18 was at 27,304 metric tonnes compared to 25,132 metric tonnes for Q1 FY17. In Home Textiles, the production stood at 2,034,000 meters in Q1 FY18 as compared to 1,789,000 meters in Q1 FY17.

We have started the commercial production of a recently expanded capacity of 35,280 spindles for value-added Mélange yarn at Bhawanimandi, Rajasthan. We declared the commercial production on 15th of March, 2017. We have also completed the capacity expansion at our Home Textiles division at Bhilad in Gujarat with increased capacity to 9.6 million meters per annum.

For the quarter, exports stood at 155 crores during the quarter as compared to 166 crores in the corresponding period of previous year. We are continuously adding newer geographies and currently export to more than 60 countries across globe.

EBITDA for the quarter stood at 76 crores, with EBITDA margin of 11.6%. The company reported a net profit of 24 crores for quarter one FY18.

I would now request Shri. Khandelia ji to share the business outlook and the industry scenario and then we can start with the question-and-answer session. Thank you. Over to Shri. Khandelia ji.

**S. K. Khandelia:** Thank you, Bipeen. Good afternoon, everybody. It gives me great pleasure to be with you once again through this con-call. The main portion of the results, Bipeen has mentioned to you and you must have also seen as these were uploaded.

As expected last time, the stress is visible on bottom-line. However, our topline has grown by about 18%, volumes has grown by 9%. This is despite the very challenging market conditions through which we have been passing. First there was demonetization and the lingering effect of the same is still visible. Thereafter the GST was decided to be rolled out and uncertainties relating to the date of implementation, rates of GST etc. kept on creating uncertainty during the whole quarter Q1 FY18.

So because of these things, demand was very much suppressed and rather retailers and stockiest were trying to reduce their stocks. However, because of our operations to a large extent in value-added segments of the yarn, we could run our mills to the full capacity, could sell the entire material and that has shown the growth. However, though we could sell the material, margins were under extreme pressure. The input cost like power and fuel has shown very high increase compared to corresponding quarter last year and raw material prices have also gone up during this quarter because of that the cotton season is at the off end, polyester prices have gone up because of international prices; similarly viscose prices have gone because of the international prices. So the local disruption could not restrict the price increase of the raw materials whereas realizations were restricted. So it put pressure on the margins and which is evident from the bottom-line.

Despite all these things, we have been able to achieve EBITDA of 11.60% even though such challenging quarter. And thus, we were less impacted as compared to other yarn producers and other players in the system.

Another reason which impacted the bottom-line is the stabilization of the new capacities. We have started 35,280 spindles from 15th March. Since these are meant for specialty yarn, we have to fine tune the process, have to train the workers and improved their habits in such a way that when we start producing the value-added specialty qualities, the same is up to the mark and standard. So we intentionally did not start the production of value added qualities in that unit. We first started ordinary yarn, then we have changed to the ordinary Mélange yarn, and now we have started shifting to the value-added Mélange yarn. So that is the reason though the shift added to the revenue, but the margins could not be increased. On the other hand, it increased our depreciation, it increased our interest cost and that has reduced our bottom-line.

Similarly, in case of Home Textiles, which is a discretionary purchases category item, not like exactly apparel, it is a discretionary, so because of bad market conditions, the demand in domestic market was very dull and because of run to GST, nobody was ready to purchase new designs and new products. They were trying to clear their old stocks as there were uncertainties about the GST. So our revenue in that division could not grow despite increase in the capacity. Though we have run that division to the full capacity, but the increased capacity could be utilized only for working on the job for somebody else for normal fabrics, not for home textile fabrics. And that is the reason our revenue in that division during this quarter could not increase.

Now, since this Mélange unit is getting stabilized and we have started value-added yarn production and this will increase gradually. Similarly, in Home Textiles, our production will start increasing gradually and new designs and other things will be absorbed in the market.

In case of exports, as you all know, the rupee strengthened by 6% and it continued to remain strong throughout the quarter. And it hovered around Rs. 64.50 per dollar, so such a strong appreciation in such a short period, and particularly, when the currency of competing countries have not appreciated or in some cases even depreciated to some extent, so that put a very strong pressure, exerted pressure on the margins of these exports. It was difficult to pass on the increase to the customer except in value-added yarns. Since we manufacture lot of value-added yarns, again the impact on us was much less, but we could not be spared totally.

Now, going forward, in case of say last year, monsoon was very good after two years of drought and the demand was about to emerge, but because of the demonetization of the currency that demand could not materialize. So now, this year, so far monsoon is good, throughout the country monsoon is behaving properly and we hope after this monsoon, we are going to see pent-up demand and after stabilization of these enhanced currencies, in second half we should be able to perform better and this quarter is continuing to be under stress as already expected earlier because there is lot of disruption in domestic market particularly in fabric market because of the GST, because there are such a strong unorganized sector in case of fabrics. So it is taking little time, but going forward these things will be behind us and it is a matter of a quarter or two and then we will be again back to the same thing.

In this quarter, we have also given Rs. 5 crores under Rajasthan Mukhyamantri Jal Swavlamban Abhiyan to complete our total commitment of Rs. 10 crores. So that was another reason to this extent the profits were impacted during this quarter.

Thank you. Now, I open the floor for question and answers.

**Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. We take the first question from the line of Mohit Jain from Care Portfolio. Please go ahead.

**Mohit Jain:** Yes, so what do you think like the cotton prices have increased, so what impact would it have on your margins and how do you see the cotton prices, will it go up or will it go down and what impact would it have on your margins in the near future?

**S. K. Khandelia:** No, you see, the new crop planting is very good this time and area under cultivation is already more by about 10%. And at this point of time, it is expected that the cotton crop will be about 10%-12% higher than the last year's crop and the prices will be lower going forward from the last year. The new crop will start coming sometime in September and in October, so till then the prices are likely to remain stable.

- Mohit Jain:** Okay. And what do you have to say about the strike regarding the GST still going on in all the textile hubs like.
- S. K. Khandelia:** The strike has already been called off. It was in Surat and other places; it has already been called off. Government has very clearly said that 5% GST is going to remain on the fabrics, so everybody is convinced. Now, it is the matter of time before they get themselves registered and come into the system. So by the end of this quarter, I think the things will get stabilized.
- Mohit Jain:** So what impact would it have on your margins? Would you be able to pass it on to your costumers?
- S. K. Khandelia:** No, no when the market conditions are wet, it is difficult. But since we have a reputation despite the bad quarter, bad market conditions last time we have been able to pass on our total sales. We have been able to sell our product and this time also, going forward, there should not be any difficulty, but this quarter is difficult.
- Moderator:** Thank you. We will take the next question from the line of Aditya Khetan from Nalanda Securities. Please go ahead.
- Aditya Khetan:** Sir, now since we are seeing a bumper cotton production in this quarter, so how you are seeing our inventory will pile up?
- S. K. Khandelia:** No, cotton will not start coming this quarter, it will start coming from the next quarter only. And inventory in the beginning of the season is all liquidated because that all is consumed. Inventory will start coming and there is no question of pile up because it is an international market, and if there will be more cotton it will be exported to some extent and the consumption of India will also take care. So no question of piling up, but there will be easiness in the market.
- Aditya Khetan:** Okay. And when we procure the cotton sir in this quarter?
- S. K. Khandelia:** We keep on purchasing every time, but as of now, we are not procuring because we are covered up to 15th October.
- Aditya Khetan:** 15th October?
- S. K. Khandelia:** Yes, when the new cotton will start coming.
- Aditya Khetan:** So sir after October if the cotton price has started to soften..
- S. K. Khandelia:** So, it will benefit us, some will be passed on to market, some will remain with us.
- Aditya Khetan:** Okay. And sir can you give me the margin for the export sir?

- S. K. Khandelia:** You see, exports margins keep on fluctuating, and normally, it is in line with the domestic market, except some specialized products.
- Aditya Khetan:** Okay. And what is the current utilization, sir, of the company?
- S. K. Khandelia:** Utilization is 95%.
- Aditya Khetan:** 95%.
- S. K. Khandelia:** Yes, we are running to the full capacity.
- Aditya Khetan:** So are there any plans for expansion like?
- S. K. Khandelia:** Yes, we have already declared expansion by 28,000 spindles in our Baddi unit for a specialized industrial yarn and the specialty synthetic blended yarn.
- Moderator:** Thank you. The next question is from Pranshu Mittal from GICA. Please go ahead.
- Pranshu Mittal:** Sir, I have 2-3 questions. One is on the cotton fabric, which will be put at the 5% GST. Correct?
- S. K. Khandelia:** Yes.
- Pranshu Mittal:** So, earlier it was zero, and yarn remains still the zero, right?
- S. K. Khandelia:** No, yarn is not zero. Yarn is also 5% now.
- Pranshu Mittal:** Okay. And earlier how much was it?
- S. K. Khandelia:** Yarn was subject to VAT, either 5% or CST 2%. So, yarn was already subject to that.
- Pranshu Mittal:** Okay. So, is it going to change anything meaningfully in terms of unorganized mills to the organized mills if this fabric has come in the GST, because the garment manufacturers, they would need to buy anything only from the manufacturers those who are registered for the fabric suppliers?
- S. K. Khandelia:** Yes.
- Pranshu Mittal:** So, anyways we are only the yarn player, we are not the fabric player as such.
- S. K. Khandelia:** Yes, yes.
- Pranshu Mittal:** So, how it is going to impact anyways the companies like us, who is a yarn player, but the end customers, which is a fabric player, those who could be unorganized as well as the organized. So, organized would not have any problem, but unorganized may find some issue buying the yarn from. So, how do you see that panning out over next one year?

- S. K. Khandelia:** All of our customers are already registered in GST. They have already got registered. So, we don't have any problem.
- Pranshu Mittal:** Okay. You don't see any issue.
- S. K. Khandelia:** No.
- Pranshu Mittal:** Okay. Another one, you just mentioned to one question that the lower cotton prices will not have any impact as and when the new crop will come and the cotton prices are expected to fall.
- S. K. Khandelia:** No, I have not mentioned that. I have said, when the cotton prices will fall, there will be benefit, some benefit will be passed on to the customers because when the prices of raw material comes down, there is a tendency in the market of the reduction in the rate. But, whenever the raw material is cheaper, mills using them are benefited particularly like us who are in value-added segment, where we don't reduce the price exactly to the level of the fall in raw material prices. So, we are likely to be benefited.
- Pranshu Mittal:** Is there also a tendency in the buying behavior that if the price of cotton falls then there is some volume growth also which we see?
- S. K. Khandelia:** Yes, some volume growth, but that depends upon the ultimate demand of the products, like fabrics, garments. If the demand of fabric and garment will increase, the demand of yarn will also increase. So say, little here and there in the prices will not make the decision of purchases so significant. But the point is it, because of the good monsoon last year, good monsoon this year, we are expecting a lot of pent-up demand to come up this year, once the monsoons are over.
- Moderator:** Thank you. We will take the next question from the line of Resha Haria from Green Edge Wealth Services. Please go ahead.
- Resha Haria:** Yes sir, I had a couple of questions. The first one is with the strong rupee and with high cotton prices, so in the export markets, how has it been, over the last six months have we been able to pass on that impact to our customers or where we are? So, if you could just highlight quantitatively, how were average realizations moved in the export market specifically over the last two, three quarters?
- S. K. Khandelia:** Yes. You see, in exports, we are manufacturing lot of value-added yarn. In those value-added yarns, we have been able to pass on the impact of appreciation of rupee to a large extent, but there are some portion of commodity yarn where the impact could not be passed on, because the other countries are also competing and their currencies have not appreciated like this. So in commodity yarns, it could not be passed on whereas in value-added yarns, it could be passed on.
- Resha Haria:** Okay. And how were our average realizations moved in the export market?

**S. K. Khandelia:** Our average realization in exports market, how much was that? It was Rs. 211 in terms of rupees as compared to Rs. 200 in corresponding quarter, last year.

**Resha Haria:** So, 211 in this quarter, okay.

**S. K. Khandelia:** Yes, as compared to Rs. 198 in the just previous quarter, that is January-March '18. So, our realizations have improved.

**Resha Haria:** Okay. Got it. And also, if you could highlight that how is demand for Mélange yarn in India which are probably the applications where Mélange yarn is mandatory to be used or rather can't be substituted? Yes, so if you could broadly....

**S. K. Khandelia:** Yes. You see, in Mélange yarn, which we are selling, there are two types. One, we are selling in India, mostly to the exporters, who convert it into the garment and export it. So our sales of Mélange yarn has not been impacted even in domestic market, because that is meant for the exports. And in exports, since it is a value-added item, our margins were protected and there has not been much impact on our margins. And application is mainly in garments.

**Resha Haria:** Okay. Any specific kind of garments?

**S. K. Khandelia:** You see it is a knitted garment. Our yarn is mainly used in knitting and some part is also used in woven garments like shirting and other things, but mainly it is being used by knitted garments and garments like pullover and other things, tracksuits, yoga shirts and other things.

**Resha Haria:** Okay. Alright. And sir, just what would be the average realization, let us say, on Mélange yarn versus the commodity yarn that we sell?

**S. K. Khandelia:** So you see, it depends upon the combination, Mélange, so many products are there and every customer wants his specialized product. He gives you sample and then we have to develop or we give them the sample. It varies from Rs. 275 to Rs. 300, sometimes, it is the lower categories, so average realization you can take it will be about Rs. 275 as compared to about Rs. 180, Rs. 190 of the ordinary yarn. So, approximately Rs. 100 and more.

**Resha Haria:** Okay. And margins would be proportionately higher for Mélange yarn?

**S. K. Khandelia:** You see, there is additional cost also, but definitely it is much higher as compared to ordinary yarn.

**Resha Haria:** So, would that be a difference of like say 300 to 500 bps?

**S. K. Khandelia:** Yes, it is there.

**Resha Haria:** And then my next question is on the Home Textiles segment. So, if we look at most players in India, so they have chosen to be manufactured towels or bed sheets in only home textiles space,

while we are in the upholstery and the made-up fabric segments. So, what really is the demand outlook? So, are we targeting mainly the export markets for India?

**S. K. Khandelia:** Yes, we have chosen the upholstery and these curtains because it is a different line. Many people are already there in bed linen, towels and other things. And that is a totally different line. In curtains and upholstery, there are so many players. Of course, there is competition, but still, it is not so crowded like of bed sheet and towel. So, initially, there are issues of design, development, but once you get stabilized, there are very good margins, much better than even the bed sheet and these towels. And the average growth rate in this sector is about 10% CAGR.

**Moderator:** Thank you. We have the next question from the line of Neeraj Mansingka from Goldman Sachs. Please go ahead.

**Neeraj Mansingka:** Sir, wanted to know on the excise benefits that you had and the post-GST, how do you see this, will you get the benefits, and if you get the benefits, how will you get it reimbursed?

**S. K. Khandelia:** You see, basically we had no excise benefit. It was same as like other units in the country. Only thing was that yarn was under exemption good for everybody, right? And there was mandatory duty on the polyester fiber and other man-made fibers. So 12.5% duty was there, 2% CST was there, and in some states VAT was there. So, there was already duty on the fiber stage and on yarn, there was no duty. So, now one can take the input credit of the fiber duty and has to pay the yarn duty and the yarn duty is to be passed on to the weaver. So, so far our margins are concerned, because of this, it is not going to be impacted. Only thing is, the demand and supply has to be there. A demand has to be there. So, I think after this disruption is over, demand should start coming.

**Neeraj Mansingka:** Yes. And so, you had no benefits specifically to being in the part of Jammu, J&K?

**S. K. Khandelia:** no, not at all, because there was no excise duty throughout India also in yarn, so there is a question of any benefit because of that.

**Neeraj Mansingka:** Okay. So, would you also benefit in terms of transportation cost going down because your location is quite..?

**S. K. Khandelia:** We hope that there should be some benefit in transportation cost because this all state check post and other things will be over, transportation will be faster. They will be able to save on the fuel. So, we plan to negotiate with them for some benefit has to be passed on to us, and they will be retaining some benefit. Again, it is a demand/supply of transport.

**Neeraj Mansingka:** Yes sir. I understand that, but I was just trying to see with regards to competition, I think your location was quite extreme, like into the Northeast..

**S. K. Khandelia:** Yes. It will be benefit us more.

- Neeraj Mansingka:** Any quantum you can give us for a thought process, how it can...
- S. K. Khandelia:** At this point of time, it is very difficult, but I think 5%-7% cost of transportation, it may impact the margins like by very little, because ours is a value-added products. So the transportation and such other costs are to a large extent lower as compared to the commodity players. So, but definitely, I hope there will be benefit, maybe here and there, but transportation cost should come down by 5%-7%.
- Moderator:** Thank you. We will take the next question from the line of Prerna Jhunjhunwala from B&K Securities. Please go ahead.
- Prerna Jhunjhunwala:** Sir, few questions on the expansion plans that I have. Sir, you mentioned that your 35,280 spindles capacity was not manufacturing value-added Mélange yarn and which will be manufacturing now. So, what is the realization difference or margin difference or some kind of impact that we can understand between the commodity and value-added or normal Mélange and value-added Mélange yarn.
- S. K. Khandelia:** I just now mentioned, you might have missed my reply, that there is a difference of about Rs. 100 per kg in ordinary yarn and Mélange yarn normally, on an average and because it involves extra cost also, but even after taking those things into account, the margins are normally better by 500 basis points normally.
- Prerna Jhunjhunwala:** Okay. But this is normal Mélange yarn, so what is the value-added Mélange yarn?
- S. K. Khandelia:** We don't manufacture normal Mélange yarn. We manufacture specialty Mélange yarn, tailor-made, either as per our specific samples or as per the customer specific requirements. So it involves lot of sampling, lot of development process. We have two full-fledged development centers costing about Rs. 40 crores.
- Prerna Jhunjhunwala:** Okay. So that is how you mentioned.
- S. K. Khandelia:** It is not easy yarn. It is doing high-paying and high difficult yarn.
- Prerna Jhunjhunwala:** Okay. Sir, next question is on circular knitting machines that you are installing. What is the thought process behind getting into knitted fabrics, and what are your plans on this going forward?
- S. K. Khandelia:** Yes. You see, some of our Mélange yarn customers ask for knitted fabrics. They say that, okay, ready to use fabrics would be if available, it will be better. So we will be able to supply them their requirement of knitted fabrics. It will improve our sales and going forward if the trend picks up, we will be able to install more knitting machines. There will be diversion towards value addition. So, right now these 17 circular machines are under installation. And by the end of August, this would start on trial run. And by the end of this quarter, this will be fully operational.

- Perna Jhunjhunwala:** So what kind of topline can we expect like as it on overall topline ...
- S. K. Khandelia:** It will not add much because yarn will be ours. It will be only value addition. So, it will be very negligible for the full year.
- Perna Jhunjhunwala:** Yes. Like, full one-year top-line?
- S. K. Khandelia:** For the full year, it should be about 80 to 100 crores.
- Perna Jhunjhunwala:** 80 to 100 crores?
- S. K. Khandelia:** Yes.
- Perna Jhunjhunwala:** And sir, one thing that I wanted to understand is GST with respect to your Home Textiles division, you would be taking polyester yarn and now you will be selling like obviously, internal consumption and you will be selling fabrics, which has lower 5% duty. So what kind of taxation impact would we see in this division going forward?
- S. K. Khandelia:** Yes, in our case, we don't use only the polyester yarn. We use many types of yarn, number one. Second thing our factories in the Gujarat State, we have other sales and other depots in our Gujarat State, so we can utilize the GST if additional say, in case of yarn it is 18%, in fabric it is 5%. You are I think referring to that.
- Perna Jhunjhunwala:** Yes.
- S. K. Khandelia:** So whatever the extra duty we will have, we will be able to use it for other type of yarns.
- Perna Jhunjhunwala:** Okay, so this should not accumulate in your books?
- S. K. Khandelia:** It will not accumulate in our case. And in any case, value addition is very high.
- Perna Jhunjhunwala:** Okay. So, the accumulation will not be there?
- S. K. Khandelia:** No.
- Perna Jhunjhunwala:** Okay. And sir, what is the type of industrial yarn that you will be doing in the Brownfield project that is coming at Baddi?
- S. K. Khandelia:** You see, there are many types. Say, like suitcase stitching, shoe stitching, bag sealing, there are many types of the industrial yarn.
- Perna Jhunjhunwala:** And sir, are the margins better than Mélange yarn also in this business?
- S. K. Khandelia:** No, it will not be better than Mélange yarn, more or less in that range.

- Prerna Jhunjhunwala:** More or less in that range?
- S. K. Khandelia:** But much better than the ordinary yarn.
- Moderator:** Thank you. We will take the next question from the line of Arjun Sengar from Reliance Mutual Fund. Please go ahead.
- Arjun Sengar:** So like you said under GST the yarn rate has increased to 18%.
- S. K. Khandelia:** In case of synthetic yarn.
- Arjun Sengar:** Correct. And there is an inverted duty structure that is valued at 5% and we cannot claim that accumulated credit on fabrics. So, my question is how is this going to change the structure of the industry?
- S. K. Khandelia:** You see, there will be some sort of consolidation going forward because the duty of 18% which will get accumulated to the weavers. So it will be accumulated only with those weavers where the value addition is very lower. So the unorganized sector which are operating at a very lower cost of fabrics. Say, in case of Raymond, in case of Gwalior yarn, the type of fabrics which they manufacture, there will not be any accumulation even if the duty on the yarn is 18% and 5% is on the fabrics. But in our case, since it is only a simply a pass on. So, in any case, ours is more or less, dyed yarns, we don't manufacture any commodity grey yarn. So we don't think any impact on us.
- Arjun Sengar:** Okay. But you are saying the smaller weaver will get impacted?
- S. K. Khandelia:** Yes. They will have to increase their prices to some extent, or they are still with the discussion with the government that if the government does something good, otherwise they can continue accumulating their duty and can add to their, some addition will be there, not much. 3% to 4% addition in the fabric cost, so if your fabric is selling at Rs. 100 a meter, they will have to sell it at Rs. 103 – Rs. 105.
- Arjun Sengar:** Okay. Sir, secondly what is the cost of term debt as of now?
- S. K. Khandelia:** Which one?
- Arjun Sengar:** The cost of your term debt?
- S. K. Khandelia:** Yes. It is at present these term loans 6.48%.
- Arjun Sengar:** Okay. Can you tell us what all are the interest subsidy schemes we are currently availing?
- S. K. Khandelia:** You see, as of now, we don't have any interest subsidy scheme, except in some of the loans we have 2% tax and in earlier loans it was 4% for the tough compatible machines and we will be

getting the subsidy from Rajasthan Government, but that is yet to be under the process of sanction, so that credit, we are not yet taking. It will be from the date of sanction. And in case of our expansion of Damanganga, we will be getting Gujarat Government sanction. And that we will be getting from 1st April that we are accounting for. So these are the subsidies which we are taking.

**Arjun Sengar:** And these will mostly be getting over by end of, I mean within the next one to two years, correct, the Gujarat and the Rajasthan state subsidies.

**S. K. Khandelia:** Yes, the Rajasthan Government subsidy will be accounted for from the date of its sanction. That will be 5% on the tough compatible machines only, right. In case of Gujarat Government, their scheme is very clear and that we are accounting from this 1st April of '17.

**Arjun Sengar:** Okay. And like you said most of your yarns are blended yarns. So, I mean what proportion of your yarn portfolio would be coming under synthetic categorization for this 18% rate?

**S. K. Khandelia:** Synthetic it is 55%, and cotton and cotton blended Mélange and others are 45%.

**Arjun Sengar:** Okay. They will be under 5%.

**S. K. Khandelia:** They are fairly distributed. So, we have distributed the risk in such a way, whether it is the product mix or whether it is the customer, whether it is the geography. So if anything goes wrong anywhere, we are not badly impacted if somebody's in the same. So we are not in 100% synthetic. Our 55% is synthetic and 45% is cotton and cotton blended.

**Arjun Sengar:** Okay. And the taxation would be accordingly?

**S. K. Khandelia:** Yes, 45% would be subjected to 5% and 55% would be subject to 18%. So, we will not have any accumulation, because in any case ours is a dyed yarn, so value addition is also high there.

**Moderator:** Thank you. We will take the next question from the line of Chirag Patel from Alpha Alternatives. Please go ahead.

**Chirag Patel:** I wanted to ask, how are the export volumes trend being over the last 12 months and even over the last 24 months?

**S. K. Khandelia:** I just tell you, exports volumes were 5,725 metric tonnes in Q1. You want to know for the whole year?

**Chirag Patel:** Generally, the trend, how has the trend been? Are you able to...

**S. K. Khandelia:** We have been able to sustain our exports, rather there has been negligible growth, but we have been able to sustain our exports.

- Chirag Patel:** Has the trend been the same throughout for the last 3-4 years as well I think?
- S. K. Khandelia:** Yes, it is more or less the same. You see, exports we deliberately change some percentage year-to-year depending upon the prices in domestic market, export market, but on an average our exports are normally 25% of our total production.
- Chirag Patel:** Okay. And is that percentage broadly the same when it comes to commodity type yarns like PV dyed and for others like cotton Mélange?
- S. K. Khandelia:** No cotton Mélange, it is little less because in cotton Mélange, we are not able to meet even the domestic demand fully and because we have reputed and established customers. So first we cater to them and then we export.. It is little less in Mélange yarn, 20% and in case of synthetic, it is little higher, the average is 25%.
- Chirag Patel:** And what is the difference in net-net margins that you have in cotton Mélange versus in the commodity?
- S. K. Khandelia:** No. I have already mentioned that it is in the range of 500 basis points.
- Moderator:** Thank you. The next question is from the line of Harish Shiyad, individual investor. Please go ahead.
- Harish Shiyad:** What is the CAPEX for the knitted machine we are implementing?
- S. K. Khandelia:** It is about 15 crores only.
- Harish Shiyad:** 15 crores only. And as you said, it will add nearly 100 crore topline per year on a full scale basis?
- S. K. Khandelia:** Per year for the full scale basis, yes.
- Harish Shiyad:** Okay. My second question is on, the GST is being implemented in J&K and we have the plant over there. So what is impact on us on our customers or vendors?
- S. K. Khandelia:** That is being implemented.
- Harish Shiyad:** Is it implemented?
- S. K. Khandelia:** Yes, from the 8th of July.
- Harish Shiyad:** Already implemented, okay. I was not aware. And you said this CSR, we spend already 5 crores in this quarter, what is the budget for the FY18?
- S. K. Khandelia:** No, so far the basic budget is there, it is already 2 crores, 3 crores more only for this year.
- Harish Shiyad:** Okay. That will come over a period of time now.

- S. K. Khandelia:** Yes, throughout the year.
- Harish Shiyad:** Okay. One thing I wanted to understand on the yarn realization has gone up by 10% on year-on-year. One could be that because of the increase in the prices and you pass on to the customer, but what is the impact due to the product mix change because of the Mélange yarn?
- S. K. Khandelia:** No, Mélange yarn is totally different. And this is a dedicated capacity for Mélange yarn.
- Harish Shiyad:** Yes, but average realization has slightly gone up because of the Mélange yarn also?
- S. K. Khandelia:** Yes, let me see. Yes, Mélange yarn also yes, cotton prices have gone up because of that Mélange prices have also gone up.
- Harish Shiyad:** Going forward what will be average realization for the FY18 approximately because of the change in the product mix of Mélange yarn?
- S. K. Khandelia:** It is very difficult to credit because there are so many changes which takes place on the daily basis, what will be prices, suppose tomorrow something goes increases, the yarn prices will in case something falls, yarn prices will fall to some extent. So it is very difficult.
- Moderator:** Thank you. The next question is from Karan Sanghvi from HA Investments. Please go ahead.
- Karan Sanghvi:** Yes. Sir, most of my questions have been answered. I just have one question. Now that crude oil prices are heading downwards, so do you expect the polyester and the viscose prices to head downwards as well?
- S. K. Khandelia:** You see, the transmission from crude oil price to the polyester fiber price, the chain is very lengthy. So it directly does not impact immediately. It takes a long time. The main thing remains is the basic raw material of the polyester and that is the PTA, MEG, these are the raw materials. So if the PTA, MEG prices goes up, the polyester prices goes up and down, not because of the crude. Crude prices are more or less the stable. If you see, it is around \$45 to \$50. So it does not impact the polyester price.
- Moderator:** Thank you. We will take the next question from the line of Ankit Panchmatia from ICICI Securities. Please go ahead.
- Ankit Panchmatia:** This is regarding our Home Textiles strategy. So just want to understand because in current quarter as well if I see the domestic contribution has increased from 60% to 71%. So, just to understand this how has this quarter or how have we get this increase in this quarter? And what is our strategy keeping Home Textiles into mind going ahead?
- S. K. Khandelia:** Yes see, we are in the Home Textiles segment, we are in the curtains and upholstery. It's a purely design business and very high rich fabric is required for our type of products. So domestic contribution increased because the increase in rupee, strengthening of rupee has increased our

prices in dollar terms. We did not reduce our price in rupee terms. So we converted in the dollars, so our rates were high. It was not like yarn. So there were some resistance because some of the other countries like Turkey, China, they have not, Turkey was impacted, but China was not impacted. China is the big supplier in the home textile market abroad. So in exports, we faced little resistance and in domestic, of course, the market conditions were very bad, but some of the quantities increased in domestic because of that.

**Ankit Panchmatia:** So is my understanding right that in the domestic market, we have produced white label goods for some people or is it under our brand name?

**S. K. Khandelia:** No, it is not our brand name. We are selling to the distributors and they sale with their system and other things. We are not selling with our brand name.

**Ankit Panchmatia:** So how does the margin profile differ from this export and domestic?

**S. K. Khandelia:** Export margins are better.

**Ankit Panchmatia:** Okay. And is this export being done to the big format stores in the US or UK? Whom do we do this export to?

**S. K. Khandelia:** You see it's a very new unit, since last 3 years only. We are working in the USA now, but we have not yet started supplying in a big way. We have started working sampling and other things and some supply is going, but not in a big way.

**Ankit Panchmatia:** Okay. Sir, to get this revenue of 108 crores, which was FY17. So out of which, approximately 300 crores of exports, we have generated in FY17 in Home Textiles, so what does that denote than?

**S. K. Khandelia:** No, we did not.

**Ankit Panchmatia:** 30 crores, sorry.

**S. K. Khandelia:** Thank you for your use of 300 crores.

**Ankit Panchmatia:** Right, that denote only the samples or..

**S. K. Khandelia:** No, it's a full-fledged supply. There are many countries. In the Middle East, we are already established player. In Southeast Asia, we are doing some things, but in USA and Europe, their designing and other requirements and working requirements is totally different. So we have kept a separate team and that is working with that. And going forward, we will get the good business from USA, but it will take time.

**Ankit Panchmatia:** Right. Sir any internal targets to scale up to what revenues because our realizations is also around 112 and 113, the blended realization I am talking about.

- S. K. Khandelia:** You see, from the existing capacity which we have, we intent to go up to 200 crores in two years' time.
- Ankit Panchmatia:** With this capacity, 9.6...
- S. K. Khandelia:** The capacity fully established, so we intent to go about 200 crores in two years' time. So, some of this will be this year, some will be next year. And thereafter, once that is established, we intent to go for the further, we are looking much bigger targets going forward 5-7 year down the line, so it is the line which we would like to develop.
- Moderator:** Thank you. We will take the next question from the line of Pravin Sharma, individual investor. Please go ahead.
- Pravin Sharma:** I have two questions. First, the contracts which we have with the end customers, they are like for both cotton commodity and specialty Mélange yarn, they are long-term contracts or they are like spot selling?
- S. K. Khandelia:** These are not long-term contracts, each contract is different, but there are no long-term contracts, it is short-term. It's specific supply contract only.
- Pravin Sharma:** And sir, basically, as far as export market is concerned, how is the margin panning out in last 2-3 quarters? Like I see that volume is we are more or less able to maintain, but margins are...
- S. K. Khandelia:** Margins are under pressure in domestic as well as in export, but for value-added yarns, margins are better in exports even in PV dyed and other things. And at the present because of the strengthening of the rupee, margins are under pressure and in domestic market also, those are under pressure. So, normally, we have to compare the margins, what is the margin in domestic market, what is in the export market. So still more or less the margins in domestic and export for the normal yarns are the same.
- Pravin Sharma:** Sir, these cotton prices, I remember, if I recall clearly, last year also we were in the call, and we were fairly hopeful that once the cotton starts coming near Diwali, the prices will soften out and despite demonetization, which led to the crushing of prices of most of the commodities, cotton was stubborn, there was no fall. This year if suppose the price do not fall because there are variety of reasons may be there that farmers they don't want to sell in lower prices. Then what is our plan B, like? Do we see a possibility of passing on these prices because how is the market absorbing? If suppose we increase price, will it absorb? Because right now it is not absorbing. Correct?
- S. K. Khandelia:** No, I'll explain you. You see, it's a global market. Now, India is not the only one. It is the international prices which does effect. So international cotton crop is better this year and international expectations are of the softer price. And in India also, they cannot keep on the crop indefinitely with them. Last year what happened, first of all, after the demonetization, farmers were not ready to take the payment by check and other things, so for some time they were

withholding the crop. And during that process because it was the beginning of the season, everybody wanted to have the cotton to run their mills because they had exhausted earlier year cotton. So because of that, the prices went up and once it went up, since it created the system like that, and ultimately the crop turned down to be lower than what it was expected in the beginning, much lower than what it was expected. So because of that the cotton prices ruled high this year and international prices were also high compared to earlier years. But going forward, international prices expectation is soft and in India also the crop condition is very good at present. And as of now, I can say and everybody is saying that cotton prices are likely to go down.

**Pravin Sharma:** Okay. And sir last thing on this industrial yarn, if I remember correctly, last time you said around 240 crores is expected once this entire capacity is put on the roll. So. this is mainly for export or this is for domestic market?

**S. K. Khandelia:** It will be a combination of domestic as well as export.

**Pravin Sharma:** Okay. And do we see a strong demand for this particular product, industrial textile yarn?

**S. K. Khandelia:** It is a specialized product. India is growing and the demand is already there, so demand I think will continue to grow because India is growing.

**Moderator:** Thank you. The next question is from Resha Haria from GreenEdge Wealth Services. Please go ahead.

**Resha Haria:** On the Home Textiles front, so you were mentioning that Turkey and China are probably the major competing countries with India. So since the segment that we are in, in upholstery and curtains, so would that have a larger proportion of synthetic fiber, is that understanding correct?

**S. K. Khandelia:** No, it is not necessary. It is not necessary, it depends upon the design and other things. You see, the good quality, which we are ultimately, gradually shifting to that does not have much of the polyester. It does have polyester, but it does not have much of it, it can be linen, cotton so many other things.

**Resha Haria:** Okay. So, any broad ratio that is there of natural versus synthetic?

**S. K. Khandelia:** No, it is not like that. You see, design is every year new and fashion keeps on changing, so cheap varieties are in polyester and good varieties are other than polyester.

**Resha Haria:** Okay. So, China would be a biggest competitor in this space, in the international...

**S. K. Khandelia:** China is the biggest competitor in each field of textiles. It is the biggest exporter in the world for each and every category of textiles.

**Resha Haria:** Correct. And then in the domestic market, who would be your competitors?

- S. K. Khandelia:** In domestic market our competitor is D'Decor, GM Textile, DCTEX.
- Resha Haria:** Okay. And so, we did around 108 crores of revenues in Home Textiles in 2016-'17 with 80% capacity utilization, right?
- S. K. Khandelia:** See, some of the capacity was used for job work. So, that did not generate much of the revenue.
- Resha Haria:** I'm sorry. I missed that, some of this capacity was used for?
- S. K. Khandelia:** For producing goods for others, that was a job work, so in case of job work we get only job charges. So it did not add much to our revenue. This job work will be eliminated going forward. And then we will be having higher revenue on the same number of loans.
- Resha Haria:** Right. And the last question on the working capital. So, last year, actually in 2016-'17, we have seen that both inventory and debtor days had risen quite significantly. So do we expect now working capital in this financial year to come back to the old level of..?
- S. K. Khandelia:** You see, at the end of the year, sometimes cotton inventory increases. It depends upon the perception. Because we are in a dyed yarn business, the inventory and debtors remains high as compared to gray cotton yarn because it's a value-added item. So I do not think our inventory and debtors are on the higher side, it's in normal side.
- Resha Haria:** No, but in 2016-'17, it had increased versus the previous years.
- S. K. Khandelia:** You see, in 2016-'17 the new unit production camp, 35,280 spindles production, that also added to the working capital requirement of inventory, debtors of that unit also.
- Resha Haria:** Right. So, our working capital will continue to be at 2016-'17 levels, right?
- S. K. Khandelia:** More or less. We always calculate it in number of days of cycle and something like that. It is about typically three months, about three months.
- Resha Haria:** Right. Three months of inventory.
- Moderator:** Thank you. We have next question from Dhruv Bhatt from NVS Brokerage. Please go ahead.
- Dhruv Bhatt:** Sir, I just wanted to know that how are we expecting the global scenario affecting us in case of China and even as we have presence in a lot of other countries, so which countries are we looking forward to increase our exports and where is our focus right now in the export scenario?
- S. K. Khandelia:** We are exporting to almost the entire globe. At present, we are exporting to 60 countries. And if you take the total number of countries which we might have exported over a period of last 3-4 years, some countries get into, some countries get out. So the cycle keeps on going on. So on an average; we keep on exporting to 60-70 countries. So depends on so many things, the

geopolitical things, exchange rates, demand in those countries. So our focus always has been to the developed countries.

**Dhruv Bhatt:** Okay, developed countries. And sir just one question regarding our debt, are we expecting the debt to come down anytime?

**S. K. Khandelia:** Our debt-equity ratio is already less than 1. It is already there. You see, if you see our debt-equity ratio, it is already less than 1.

**Moderator:** Thank you. As there are no further questions from the participants, I now hand the conference over to Mr. S. K. Khandelia for closing comments.

**S. K. Khandelia:** Thank you all the participants. Despite up and down for few quarters, we do not compare the results quarter-to-quarter and something like that. And there were some unusual external factors like demonetization, GST related and going forward, this will be behind us. Resilience and strength of Sutlej is intact. We are continuously growing. And I hope going forward; we will be able to deliver better results. Thank you all.

**Moderator:** Thank you. Ladies and gentlemen on behalf of Sutlej Textiles and Industries Limited that concludes this conference call for today. Thank you for joining us. And you may now disconnect your lines.