sutlej
textiles and industries limited

SUTLEJ TEXTILES AND INDUSTRIES LIMITED
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14th February, 2025

BSE Ltd. Phiroze Jeejeebhoy Towers, Dalal Street, Fort, Mumbai 400 001. **Scrip Code: 532782**	**National Stock Exchange of India Ltd.** Exchange Plaza, 5th Floor, Plot No. C/1, G-Block, Bandra - Kurla Complex, Bandra (E), Mumbai 400 051. **Scrip Code: SUTLEJTEX**

Dear Sirs / Madam,

Subject: Transcript of Q3 & 9M FY25 Earnings Conference Call

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, kindly find enclosed a transcript of the earnings conference call for the quarter and nine months ended 31st December, 2024 which was held on Monday, 10th February, 2025. The same is also available on the website of the Company i.e. www.sutlejtextiles.com.

The conference call held on 10th February, 2025, as per the Transcript enclosed incorporates mainly the highlights of financial results upto 31st December, 2024, and other related information which is already in public domain and / or made available / uploaded on the Company's website.

Please take the same on record.

Yours faithfully
For **Sutlej Textiles and Industries Limited**

MANOJ VINOD CONTRACTOR
Digitally signed by MANOJ VINOD CONTRACTOR
Date: 2025.02.14 12:01:52 +05'30'

Manoj Contractor
Company Secretary and Compliance Officer

“Sutlej Textiles and Industries Limited

Q3 and 9 Months FY '25 Earnings Conference Call”

February 10, 2025

MANAGEMENT: **MR. RAJIB MUKHOPADHYAY – WHOLE-TIME DIRECTOR AND CHIEF FINANCIAL OFFICER – SUTLEJ TEXTILES AND INDUSTRIES LIMITED**
MR. S. K. KHANDELIA – ADVISOR TO CHAIRMAN – SUTLEJ TEXTILES AND INDUSTRIES LIMITED

MODERATOR: **STELLAR IR**

Moderator: Ladies and gentlemen, good day, and welcome to the Sutlej Textiles and Industries Limited Q3 and 9 Months FY '25 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing star then zero on your touch-tone phone. Please note that this conference is being recorded.

This call may contain some of the forward-looking statements that are completely based upon our beliefs, opinions and expectations as of today. These statements are not a guarantee of future performance and involve unforeseen risks and uncertainties. The company also undertakes no obligation to update any forward-looking statement to reflect developments that occur after the statement is made.

I now hand the conference over to Mr. Rajib, Whole-Time Director and CFO. Thank you, and over to you, sir.

Rajib Mukherjee: Good afternoon, everyone, and welcome to the earnings and conference call of Sutlej Textiles and Industries Limited for the third quarter and 9 months ended 31st December 2024. I trust that you are all doing well. With me on the call today is Mr. S. K. Khandelia, Adviser to Chairman of Sutlej Textiles and Industries Limited; and Stellar IR Advisors, our Investor Relationship team. We have already uploaded the investor presentation, and I hope everyone has had an opportunity to go through the same.

Let me start the call by giving you the financial highlights of the quarter, after which Khandelia Ji will update you on the business highlights as well as the industry highlights. Our spinning capacity used in current 9 months was 97% against 91% in the corresponding period. For 9 months FY '25, our consolidated income came in at INR2,012 crores, gross profit improved by 15% to INR865 crores and EBITDA came in at INR48 crores against a loss of INR26 crores for the corresponding period last year, which is 9 months FY '24.

We are continuously working on the cost optimization and strengthening the balance sheet. We have consistently maintained our debt-equity ratio below 1. Presently, it is at 0.85. Our efforts are continuing in the direction with long-term prospects, which is envisaged in our results and will be more visible in the upcoming quarters.

For Q3 '25, our consolidated total income came in at INR658 crores. Gross margin was at 42%, which was higher by 4% on a year-on-year basis. EBITDA is at INR7 crores from minus INR1 crore for the corresponding period.

We are optimistic about the prospects and the Indian domestic market is expected to boost up on the benefits given in the budget, but the situation at present remains muted due to wait-and-watch approach regarding the geopolitical landscape, post Trump administration's uncertainties and its implications for the trade.

Positioning of key countries like Turkey has been worsening due to continuous increase in the interest rates, and consequent negative impact on the demand of the dyed yarn. Further, the positioning of tariff may take some more time to stabilize. The fourth quarter will be of particular importance as it will set the tone for the next financial year.

We are cautiously optimistic that the positive cycle for the textile sector may start in the next financial year. Those were my opening remarks. I now request Khandelia Ji to please take it forward with the business and industry updates.

Suresh Khandelia: Thank you, Rajib, and thank you all for joining us on this conference call today. As we look at the global landscape, today we find ourselves navigating through a period of significant uncertainties. Major economies worldwide are experiencing profound transitions, each bringing its own set of challenges. It will be interesting to see the stance of other countries that are important to us for the global textile trade. We are hopeful that after the dust settles, some of our major demand centers will have more clarity and order flow should start improving.

Coming to the domestic market, the recently announced budget has recognized the strategic importance of textile sector, which contributes nearly 2.5% to India's GDP. And the measures: Announcement of cotton technology mission will boost production and improve quality of cotton, which is a major raw material for textile industry.

Another step taken by government is the imposition of custom duty of flat 20% or INR115 per kg, whichever is higher on imported knitted fabrics. This will restrict such imports from China and is a very positive step for domestic yarn manufacturing. Textiles is predominantly in MSME sector and all schemes announced for their benefit will directly help textile manufacturing.

Further, most important is higher spending spurred by lower taxes and lower interest rates should be tailwinds for discretionary consumption like textiles going forward. Our strategic focus on fungible production capabilities, coupled with targeted cost optimization measures have already started yielding some benefits and are likely to continue going forward also.

We also have our ears to the ground to the changes which are happening to the industry and are taking appropriate measures to deal with such changes despite the overall subdued sentiment. We remain focused on optimizing our cost, product mix, production, etc. in-line with emerging trends to stay ahead of the curve. With that, we can now take your questions.

Moderator: We have the first question from the line of Aditya Sen from Robo Capital.

Aditya Sen: Sir, my question is about EBITDA margins, which have been quite low since quite some time. So is there any strategic move that we are planning to get back to the previous margins? Or will the margins be only driven by the macro events?

Suresh Khandelia: Yes. As you know, as we have been explaining in our conference calls, and you might have seen the results of other yarn companies also, which are manufacturing yarn, that the EBITDA margin has been unfortunately coming lower since last 2 years because the textile has not been doing good worldwide, particularly the yarn industry. So that type of the margins which we have today will definitely appear to have to go up because these things cannot continue for long.

And I think people feel that now, as I mentioned that there has been positive steps for the domestic market. And once the dust settles in the export markets after all these policy designs and other things comes to the foray and the demand improves, it is the question of the demand and supply because demand is not emerging and supply pressure continues to be the same.

And we are operating at full capacity. So that is the reason that the EBITDA margin is low at present. And that should keep on improving going forward. But the demand has to emerge and for which we are optimistic.

Moderator: We have the next question from the line of Kanishk Jain from AK Investment.

Kanishk Jain: I wanted to know about the strategy which you are planning or will be adopting to stabilize our margins going ahead? Any specific plan are you thinking of?

Suresh Khandelia: No, as I explained to you that there are 2-3 things. First thing is that demand is not emerging, supply is more. That is the basic reason of EBITDA being lower. Second thing, we are looking at any new product, new technology or any new thing which we can do to improve our margin despite the subdued demand.

But since the visibility is not there, we are not clear which products are to take forward, which technology to take forward further. And what should we do to improve our margins in the new products or anything. So once the visibility is there, then we can do many things. But of course, we are doing many things like, as I mentioned, we are optimizing our cost further. We are reducing our cost.

We are changing product mix to some extent like from apparel to non-apparel, we are increasing. We are going in value-added products like lycra twisted yarn and lycra core spin yarn. Wherever there is demand of any specialty yarn by the specialty buyers, we are trying to cater to them and then we are getting encouraging results. So once the demand emerges, we are fully geared to take benefit of that and the EBITDA margin should improve.

Kanishk Jain: Understood. That was very well structured. And also wanted to know about some marketing spend on different services and other products.

Suresh Khandelia: Can you please repeat your question?

Kanishk Jain: I wanted to know marketing spend, Sir.

Suresh Khandelia: You see, we have a big marketing team. Whatever we are producing, we are able to sell. You must have seen the data, our inventories are not increasing, our receivables are not increasing. We have different marketing centers and international markets, we are selling to 70 countries. And every corner of the country, we are selling and we are selling for different applications, whether it is knitting, weaving, garmenting, grey, dyed, apparel, non-apparel, technical textile. So we are present everywhere.

So we have the huge marketing strength. The only thing is that the overall worldwide demand is low for the particular type of things at present. So once the demand improves, the things will improve.

Kanishk Jain: Okay. Understood sir. And also just wanted to know we have volume up pretty well; capacity utilization is pretty good? So, how long does it take to revive completely, any target or anything to that in your mind?

Suresh Khandelia: We hope you might have seen the Retailers Association of India, Garment Association of India that when the demand started coming down, they thought it is a temporary blip. But after 2 years, they also are not able to predict when the demand will re-emerge. So you see the uncertainty is there, geopolitical tensions, a lot of conflicts, Red Sea crisis, so many things have been happening worldwide. And whatever happens worldwide, that definitely impacts Indian market also because 20% of textile is being exported.

And earlier, it used to be 1/3rd of the total production. So that pressure is coming on domestic market also. So naturally, now we are seeing that last year was a heavy election year. There were election in 20 countries. So that has created some sort of election mode and other things. and then a lot of geopolitical, as I mentioned. So it was the entire period of 2024, '24-'25 financial year has been struggling for the demand.

There has been certain shift towards certain products in which we are also adopting new type of products like recycled fiber and other things. So one can only hope that from next year, all the dust will settle. Domestic demand should also improve because government has given income tax exemption. Now the rate of interest has also been cut. We are expecting the cut in the interest rate going forward in the USA. as well as further interest rate cut in India.

Inflation is also settling down. So that will improve the purchasing power with the masses. Because after all, it cannot continue like this. So we hope that next year should be better than this year.

Moderator: We have the next question from the line of Vikram Suryavanshi from PhillipCapital India.

Vikram Suryavanshi: What was our production from the green fiber this quarter? And are we seeing the improvement in that business also? Or how is it?

Suresh Khandelia: So far production is concerned, we are running at 110% of our capacity. Production was good. Our capacity is 120 tonnes/day, whereas we have produced 130 tonnes/day. But the point here is that basically this unit was set up for captive consumption to have the better quality of yarn because otherwise, when we used to purchase from outside, there used to be variation in the supply of the fiber. So that was basically meant for our own fiber. But having said so, there has been an increase in the PET bottle prices because many applications of that bottle has been increased like B2B.

So the demand of PET bottle has gone up. And because of the PET bottle prices has been going up. And in winter season, the supply also reduces. So because of that, there was a mismatch between the fiber price and PET bottle price because the recycled fiber price is basically governed by the price of the fresh fiber, virgin fiber of the Reliance and other manufacturers.

So there was pressure on the prices. Otherwise, plant is running well and we had 110% of our total production in Q3 was 12,000 tons.

Vikram Suryavanshi: And the PET bottle prices, if you compare last year to this year, what kind of increase could be there or if you can give broad number per kg basis, if it is possible?

Suresh Khandelia: It is basically the delta between the PET bottle and the fiber price. So the last year delta used to be higher by INR3 to INR4 per kg. And this year, in this quarter, particularly, delta has been lower by that much amount. So it is basically the delta which impacts. So I think that maybe a temporary feature and other thing. Let's see how it works.

And now the summer season will start and availability of bottles will increase and demand for recycled fiber should also improve. So I think going forward, it should improve.

Vikram Suryavanshi: Got it. And out of our total spindle, how much would be 100% cotton?

Suresh Khandelia: Total, we have about 40,000 spindles on which we run normally gray yarn, cotton gray yarn. And rest are all on dyed or melange or something like that. But because at times when the demand for the melange or other things is lower, we have to run more of the gray yarn. But in gray yarn, cotton yarn, it is not 100% absolutely.

Sometimes it is polyester cotton, sometimes it is 100% cotton. So maximum out of 413,000 spindles, we run normally about 60,000 sometimes. But normally, it is 40,000 only on cotton and cotton blended yarns gray.

Vikram Suryavanshi: Got it. And last, sir, our home textile business also seems to be impacting the profitability, but are we seeing -- not seeing some benefit of lower raw material cost in home textile? Or is there something else in the home textile business we need to improve?

Suresh Khandelia: You are very much right. What happened that since there were problems in the Middle East, our exports to Middle East suffered very much. Secondly, we intentionally reduced our domestic sales to some extent, particularly to the wholesalers because we find that the payment issue is coming there. So we have tightened our credit to the domestic wholesalers, not for other things.

Moderator: The next question is from the line of Prerna Jhunjhunwala from Elara Capital.

Prerna Jhunjhunwala: So just wanted to understand what -- how much percentage of your yarn volumes would now be value-added yarn? And you had forayed into knitted fabrics as well. So is vertical integration helping you do much better than being solely yarn? Or is it still very small?

Suresh Khandelia: So we have a very small capacity of knitting. We have only 18 knitting machines, and that were put out basically only to test the waters for the Melange yarn. So unfortunately, since the market has been doing well, we could not expand that capacity and we could not put the process house for knitting also. So that's a very small capacity.

So knitting downstream, we are looking into once the visibility is clear, we may put more knitting with the processing. So that was the one part of it. So for value-added yarns are concerned, it depends from season to season, time to time and application to application. But the overall market has been down throughout each and every segment.

So that is very difficult to say how much is the value-added at this point of time. Normally, we used to have about 20% of the value-added yarn, but it is fluctuating now. Because in such recession times when the demand is low, people want the cheapest type of yarn. They don't need those type of yarn except for specific application.

So demand of those type yarn is a little lower at this point of time. But we hope that as the things improve going forward, the demand will again come. Otherwise, we normally use 15%, 20% of value-added yarns. And if you compare with the gray cotton yarn, 100% Melange is the value-added that way. So it's a relative term.

Prerna Jhunjhunwala: Okay. Understood. So sir, but if I look at your numbers 3 years, 4 years back and today, the profitability has taken a huge hit. Is it the market supply of blended yarn wherein more and more cotton players have started getting into blended yarn impacting your profitability? Or is it largely a demand concern, part one?

And second, whether we can get into newer products or be more cotton intensive because if I look at the numbers of other cotton yarn manufacturers, they have value addition as such, I understand. But their profitability as compared to last year has improved. So is your cotton capacity is also doing better versus blended yarn capacity.

Could you help us give some color on that?

Suresh Khandelia: Let me take your question in 2-3 parts. If you see the dyed yarn, synthetic yarn, everybody is in the same boat. There is nobody is doing better than what we are doing. Rather, we may be doing something better as we have introduced certain different type of yarns and for this, there has been good demand in the market. So we have been able to run our full capacity of synthetic dyed yarns.

So that was the one part. We have the highest capacity of synthetic dyed yarns among all our peers. Now coming to the value addition in cotton and cotton blended gray yarn. If anybody has a downstream activity in cotton or say if there are different, say if you talk of the fine count of the south mills, that's a different setup. So we have always been traditionally in dyed, melange and other things.

Melange is doing well. We are doing better than our competitors in melange yarn. But say the Bangladesh situation came in between. So that affected the demand for melange yarn, which is one of the value-added yarn. So in gray yarn, I don't think anybody except new established mills, which have been established under the huge subsidy and have the new plant fully automatic and they are meant for the gray production.

Their expenses are for the automated plant. So they may be doing better and they might have done better. And if you will see our results, we have done much better than the last year.

Prerna Jhunjhunwala: Yes. Okay. Understood, sir. And sir, in home textiles, we had acquired companies in the US for marketing purpose. And how is our share of outsourcing versus brand and supplying to our units in US. And how are we progressing over there?

Suresh Khandelia: No, we are supplying very little quantity there. Basically, that is a distribution company, and they are purchasing from worldwide. And that's a small company. But the US market has been struggling because you know the interest rate on new home is about 7% there, which used to be 2% and 2.5%. So because of that, the home sales is less there. And due to that, there has been less demand for the type of home textile, which they have been distributing.

So that company has been suffering. So from here, we are supplying to other retailers and other converters in the US and our export to North America is very good. But our company ASM is in a different price bracket, much higher price bracket and they are supplying to specific products and to specific customers.

Moderator: We have the next question from the line of Amit Aggarwal from Leeway Investments.

Amit Aggarwal: I raised the same question last year, I'm repeating the same thing, last conference that our employee cost to turnover is still very high, 15%. All of the yarn companies have employee cost around 10% of the turnover. So last conference, you said that we have done something taking steps to reduce it, but I don't see any change compared to the last quarter. Any comment on that part?

Suresh Khandelia: Yes, you are very much right. Our efforts are going on and we have reduced certain number of employees. Cost has reduced to that extent in absolute terms if you take the volume and other things. But the market has not been that good. So revenue has not increased in that line.

Our efforts are going on. We have been always in dyed yarn and our capacity in terms of number of spindles is around 100%.

On the same spindles if I produce finer counts, the production will be very low. Whereas our average count is coming higher. So because of that, the employee cost is coming higher. We are taking steps and trying to optimize the workforce.

So now we are going for some sort of automation and optimization wherever possible. But you see it is not a 1-day affair. It's continuous. We have started the process, and you will see the result going forward. And quarter after quarter we hope to see some improvement.

Amit Aggarwal: And significant change in next in these two, three quarters or it will take 1 or 2 years?

Suresh Khandelia: If the revenue changes, it may immediately come down. If the rates improve, if the demand comes in, if the entire capacity in terms of the quantity is also used, not only in terms of spindles, which we are already using, the revenue will automatically increase. Earlier, we had achieved revenue of INR3,000 crores. Now it is coming to about INR2,600 crores, whereas the increase is always there, whether it is the wages or staff increments.

We are continuously optimizing our workforce. You will continuously see the results. But it will be 1-year affair, it may be 2-year affair. Once the revenue goes up, automatically 2% - 2.5% can come down immediately.

Amit Aggarwal: Do we need to more modernize machinery compared to the other competitors? Or we are as good as other competitors regarding the same?

Suresh Khandelia: No, no. There are two types of things. We are in dyed yarn. In dyed yarn, we have been continuously modernizing our machinery. This year also we have spent INR50 crores for different types of automation and other things which can be possible and something like that. We always keep modernizing to the extent required.

If anybody is manufacturing gray yarn, the employee cost will be only 5%. If anybody has the fabrics with them, the cost will be lower. So these type of things are there. With the same type of cost we have been earning good EBITDA. But we are continuously working on that.

There are two parts. One side is that how we can improve our revenue. Another thing is how we can reduce our employees cost. So on both fronts, we are working and quarter after quarter, but quarter may be even a shorter period.

But if you will see the next year, say FY25-26, I am hopeful that the percentage will come down.

Amit Aggarwal: Okay. And my last question is regarding currency exchange. Sir, the dollar has increased compared to Indian rupee in the last 3 to 3 months. So should that help in our margins or the cost will be adjusted as per the exchange rate?

Suresh Khandelia: Depreciation of rupee will definitely improve the margin, but in products which we export to USA. If you talk to other countries like South Korea or any other country, the depreciation in their currency has been much more than our currency. So there, we don't get benefit. So it is the competing countries currency, we say it's rupee versus dollar. So wherever it is and whatever we are exporting to US, we will get benefit there.

Similarly, in some specialty products where we have the bargaining power, there we will get benefit. But most of the things we will not get benefit.

Amit Aggarwal: And I imagine that our biggest competitor country-wise is China. So is there any uptick in the Chinese market? Or is it struggling -- is it also struggling like Indian market?

Suresh Khandelia: No, we are not exporting to China.

Amit Aggarwal: Our competition is -- I think our competing country maximum is China only. China and Pakistan.

Suresh Khandelia: China's currency is depreciated much more than us. So suppose China is exporting to USA, and we are exporting to USA, we are in the same boat. And if China is exporting to some other country, we are also exporting to same country, we are almost in the same boat. But where Indian market is concerned, it's a different story. There is a huge import of the knitted fabrics, which has spoiled our entire winter yarn garment market in the Ludhiana, Amritsar, NCR.

But now the government has come out with the INR115/kg minimum import duty. So that will stop that. Chinese products come through different countries also. So our government is aware of that and government is taking care that the imports will not be there. So in domestic market, it will not impact.

Moderator: We have the next question from the line of Rahul Shah from DD Associates.

Rahul Shah: So sir, I had one question regarding what is the volume growth in both yarn and home textile segment? And how do we see the contribution in volume from both the segments going ahead?

Suresh Khandelia: As I mentioned to you, if you compare Q2, Q3, since we have operated all the spindles in Q2 as well as in Q3, there has not been any volume growth because until unless the demand pattern changes, volume growth cannot happen. If you talk of the home textile, in exports, our volume growth has been the same.

And in domestic, of course, intentionally, we have reduced our volume there. And in processing, since the cloth business is not doing well, processing job work was less. So there some volume has decreased. Otherwise, in yarn, the volumes are almost same. As compared to last year, we cleared the inventories in FY 23-24.

There was a huge stock in the beginning of '23. So we cleared those stocks. So sales will be more, but the production is more this year. As compared to last year 9 months, this year production is much more.

Moderator: Okay, sir. Sir, going forward, sir, how do you expect the volume after the macro conditions if you consider?

Suresh Khandelia: As I mentioned to you that we hope that the consumer purchasing power improves because of the change in the tax rate at the bottom. Secondly, Rabi and Kharif crop has been good. Third thing is the interest rate has also come down. So many EMIs should come down. And the inflation is also coming under control.

Say, last year, our GDP has gone down very much as compared to previous year. And this year, I hope that the capex and other things would happen by the government and others. So if the GDP improves and all these measures taken together, we are hopeful that the next year should be better than this year.

Moderator: Ladies and gentlemen, we have no further questions. I would now like to hand the conference over to the management for closing comments. Over to you, sir.

Suresh Khandelia: Thank you. We are optimistic but cautious for the coming year. And we hope that the next year should be better than the current year. Thank you.

Moderator: Thank you. On behalf of Sutlej Textiles and Industries Limited, that concludes this conference. Thank you all for joining us. You may now disconnect your lines.