"Arvind Limited

Q3 FY '23 Post Result Discussion Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to the conference call for Analysts and Investors for Post-Results Discussion for Quarter 3 Financial Year '22-'23 for Arvind Limited. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity, for you to ask questions, after the presentation concludes. Should you need assistance, during the conference call, please signal an operator by pressing star and then zero, on your touch tone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Samir. Thank you, and over to you, sir.

Samir Agrawal: Thank you. Good afternoon to you all, and thank you for participating in this call to discuss the third quarter FY '23 results of Arvind Limited. Joining me is our usual team, Mr. Jayesh Shah, Mr. Swayam Saurabh and Mr. Kaushal Shah. I would like to start by sharing our observation and perspectives in the macro environment in the market before we get into the specifics of the results, copies of which you already have.

If you follow the US data, it suggests that inflation has come down, but it's still higher than the target level of 2%. Having said that, the commentary right now is much more milder as compared to what we had heard about three months back. So most brands have delivered better results and this is true for both US as well as Europe, for the quarters ending around October, November of 2022.

Having said that, people are still concerned and hence, what we are seeing is that some of the key customers are not going ahead and making large orders, but postponing their purchases and ordering lot sizes which are smaller and expecting us to create more frequent inventory drops.

Closer to the home, in the domestic markets also there are a few trends which are playing out. First is that the Diwali was a bit muted compared to what was expected. And the winter season started a bit late. So a lot of winter merchandise, which was there in the retail shelf, did not move in November and early December. It only started to move now.

Further, in case of fabric retail, because we are seeing falling cotton prices, the distribution network is stuck with inventory, which is high cost. And because the retail demand is not good and there is an expectation of price correction, there is a lot of working capital, which is logged into the supply chain, and that is impacting the volumes absorbed by the wholesale channel in case of fabric business, as well.

On the cost side, we did go through a softening of cotton prices, which were INR 1 lakh a candy and upwards, now quoting between INR 60,000 to INR 70,000 a candy. As of now, it appears that cotton prices will move in this range only. On the other input cost side also, we've enjoyed lowering of costs, including that resulting from the lower shipping costs for imported items.

So in summary, the business environment is continuing to be quite volatile and the uncertainty is kind of driving the behavior, on part of key customers in terms of placing large orders. So in this context, you see our results, our portfolio has had both good news and not so great news.

AMD continued its robust growth and margin improvement. Woven had good volumes preserved and clocked record profits. Denim and garmenting certainly saw volume reduction because of the demand postponement and softening.

In terms of specific numbers, our overall top line for this quarter stood at INR 1,980 crores. It was lower by about 13% compared to the same period last year. EBITDA was lower by 23% and stood at INR 186 crores.

In terms of margins, EBITDA margins stood at 9.4% for the quarter compared to 10.6% for the same period last quarter, a last year. And if you see a nine-month picture, it is kind of comparable. This is 9.3% for the nine months ending this quarter compared to 9.5% for the same period, in the last year.

Profit after tax, before exceptional items, stood at INR 75 crores, and the reported PAT was INR 84 crores. And there are some onetime adjustments, our note clearly explains those.

In terms of segments, textile revenues were lower by 19% at INR 1,549 crores. Volumes did decline across the segments and higher realizations, partly were offsetting the impact of the volume decline. But this volume decline was specifically pronounced in case of Denim, where for last few quarters we have seen that 11 million meters to 12 million meters kind of volume, which is significantly small compared to our earlier number. Having said that, we feel that this volume at this level is kind of getting stabilized. So we can take this as a new normal, for the time being.

Textile margins reduced from 11.3% last year to 10.4% in Q3 of FY '23, largely on account of lower volumes. AMD continues to do extremely well. The revenues were up 26% for this year, for Q3 as compared to same quarter last year. And on a nine-month basis, we are up 23%. So our promise of clocking 20% plus growth on our annual basis continues. AMD margins also have continued to improve while they are now pretty close to 14%. Actually, 13.8%, as input cost pressures increased and businesses scaled up.

ROCE for this business has touched 26% plus. And overall, across the board, we continue to maintain fairly tight operating discipline. And we have been kind of having tighter and tighter working capital situation as well. So our net working capital turns, which were 5.6 turns in Q1 rose up to 6.1 turns in Q2 and now we did 6.3 turns in Q3.

During this quarter, we reduced our overall debt by INR 214 crores and the long-term debt was lower by INR 135 crores. This important priority for us continues to be on track as we maintain strong discipline around capital expenses. We are broadly on track for INR 300 crores of reduction on long-term debt by March 2023.

Looking ahead, we continue to remain cautiously optimistic about the demand revival in both export and domestic segments. And I would reiterate the word cautious as things are still a bit uncertain. On cotton prices and currency exchange rates as well, we are seeing wide fluctuations.

AMD continues to maintain its momentum on revenue growth and margin expansion, and we expect the same to continue in Q4 as well. As we have discussed in the past, we have made calibrated investments in this business and some of the debottleneck capacities in AMD have started to now go live, which is starting to reflect in our growth.

I'd also like to share that we have made strategic investments in expanding our renewable energy capacity and there's a 24-megawatt hybrid, solar, wind installation, which is expected to get commissioned in the next month. This will help us strengthen our best in industry to serve credential and also reduce the energy costs.

So while the short-term outlook is a bit uncertain, we continue to invest in the growth areas, mainly AMD and Garments. We will be investing about INR 250 crores in the next financial year, which will go into expanding the capacities in these two areas. We are preparing more details of this capex and growth plan, and we shall share some of that with you all in the next call.

So in summary, as I close down this opening remarks, we remain optimistic about our ability to navigate these uncertain times in coming months and quarters. We expect our gross contribution will start showing improvement from Q1 of next FY, as we get further benefit of lower input costs and rupee depreciation. We will continue to reduce our long-term debt further during the rest of the current year and coming financial year.

So with that, I wrap up my opening comments and invite you to ask questions. Thank you.

Moderator: We have the first question from the line of Nihal Jham from Nuvama Wealth Management.

Nihal Jham: Sir, just one question, which was on the Denim business that currently we are seeing Denim volumes go down significantly. And in earlier cycles also seen the ideally when you see the start of the Denim business seeing a bit of a deceleration. It does end up lasting long and generally even the margins get impacted significantly. So if you could just give a sense of what is your outlook for the Denim business over the next 12 months and where the margins in this business could go in the same period in time?

Swayam Saurabh: Right. So let me take this question. Denim as a business, and let me also give you a view on textile because in the overall context, it's easier to appreciate. Denim as a business is calibrating and we have been maintaining this for the last few quarters because of extreme volatility in cotton prices, where our focus has been to curtail the bottom end, primarily focused on managing or working with deals where margins are, let's say, above our threshold, and or with strategic customers.

I think right now, the 12 million meter a quarter is in the volume we foresee also going into future quarters. That's roughly 60% of where Denim historically used to operate. But what is important to understand here is Denim at this level remains profitable. We expect further benefit in margin coming in from rupee depreciation as well as a number of cost optimization initiatives, we are working on. So we want to optimize ourselves in terms of fixed cost to be optimum in terms of margin at these levels.

ROCE is positive. Other focus for Denim is improving verticalization with our garmenting business, which we think will create value for the entire chain. And we will strongly believe that with the cost optimization in place, holding margins will, even at lower levels, as you see right now, when the volume returns in, let's say, two, three, four quarters from now, this business is well poised to grow and go back to the whole level of profitability.

Maybe take a little bit continuing on this question with about other part of textile as well. And what we have not been stressing enough is our Woven business, which in quarter 3 has recorded, in absolutely record performance, both in terms of volume and realization.

I mean, we don't see that on revenue numbers but our profitability level at this moment are highest ever. I also remember hearing a question around our total contribution for textiles, which used to be about 30%, went down to 25%. That contribution level is coming back, even with the lower volumes of Denim where it has reached about 27%.

We are running Woven on almost full capacity. We are putting some capex to bottleneck some additional capacity. Our quarter 4 order books looks very, very healthy. And we think that this trend should continue, which also, if you look at the numbers which we reported, despite Denim coming down, our total EBITDA level for textile was at about 10.4%. And that means as a unit, textile is a unit, the businesses -- that the Woven is performing exceedingly well.

We are also holding, despite Denim volume drop of 15% kind of ROCE, which will just shoot up given some currency positivity, we expect is going into coming quarters. Also, when the future Denim volume picks up. So all-in-all, we are very confident about -- of course, demand is a question mark on the Denim side right now. But going into future quarters, we are very confident that we will come out and we are clear winner.

If I can maybe take a minute to talk about Garments as well, because I'm sure there'll be a question here as well. I mean, you would have seen Garments volume sort of flattening at about 8 million Garments for last two quarters. And we have been saying it is some customer order deferment, we have been sort of realigning our manufacturing base. We are rebuilding the machineries, which have come from Ethiopia in additional capacity.

What we are also focusing in garmenting over the last two, three quarters is gradual improvement of margin. While volumes will come up and we are confident going into quarter 4 and next year, our margins profitability in garmenting are improving quarter-over-quarter.

Garmenting is a very high strategic priority for us. I mean, we have been talking about AMD and garmenting as key areas, where capital with give and get allocated going into future quarters. We are looking to, for example, government is looking to announce PLI 2.0. We are actually looking forward to that.

Once those will come, you will see far more investment from our side going into garmenting because not only garmenting as a business support naturally our textile side of business, but we strongly think that if I take a two years view, other than AMD, that's going to be the next driver of growth and would deliver EBITDAs which are above our current threshold.

So this is how we see an overall, let's say, Arvind, although AMD, we have not covered. But Samir, do you want to talk about AMD?

Samir Agrawal Yes, sure. I think it's probably will be a bit of a pre-emptive kind of information, because I do expect questions have got to us in practically every call. So like I said, AMD is comprised of three major clusters: protection, industrial fabrics and products and composite. And overall, we'll be maintaining that. This is a primary growth in many-many ways for the company. It's been growing at 25-20-plus percent consistently.

In fact, in FY '20 -- '19-'20, AMD used to contribute less than 10% of the company's top line. In current financial year, we see it increasing to other 15%. And that increasing portion of AMD in our overall pie continues to kind of -- have that momentum.

So this growth is powered by a combination of like-to-like growth, which is getting larger and larger share of wallets in our key accounts. And then AMD is an innovation and IP-driven business. We continue to allocate part of our capacities and energies and investments in experimenting with newer areas. So we also have some new growth engine, which will keep firing on.

So let's have the broader commentary on AMD. Margins, as you saw, have reached about 14%, and they were 13% just about two, three quarters back and they continue to expand. We expect this to reach 15%, 16% level in a reasonably kind of comfortable pace in the next few quarters.

ROCE for this business is around 26.4% in this quarter. We expect it to grow to about 30% level, presumably soon. And because of this whole momentum and success and clarity, we have practically planned about 40% of our overall capex, to this business in the current year, and even for next year, it will continue to enjoy our lion's share of our capital spend and leadership potential. So, I'm going to just time up on that note on AMD and of course, as further questions come, happy to answer those.

Nihal Jham: This is one question that with cotton prices moderating. What would be the expectation of margins in the coming year? Historically, we've done 14%, 15% also and has been around 10% for the last three years. This with cotton now moderating, what's the expectation for the same case?

Samir Agrawal: Your voice was not very clear.

Nihal Jham: Sorry, just I was asking on the margin expectations now that cotton is moderating. Considering historically, we've touched 15% also, and it has been at around 10% for the last three years.

Samir Agrawal: Right. So cotton prices moderating definitely already, if you see, we are gradually inching towards the targeted 30% contribution. And part of this is coming from cotton. We expect margin to further improve as cotton stabilizes.

Moderator: We have the next question from the line of Abhishek Nigam from B&K Securities.

Abhishek Nigam: So my first question is what kind of demand momentum are you seeing in January? Have things sort of improved a bit versus December?

Samir Agrawal: Is this for a specific business or overall?

Abhishek Nigam: I think overall across Denim, Woven and garmenting.

Samir Agrawal: The demand momentum for this quarter is good overall, and it's kind of similar, practically, we expect Q4 to be broadly similar to what we have reported, maybe slightly improved. Certainly, AMD continues to do exceptionally well. And I think we do expect some improvement, even Denim and Woven, of course has done well. But not a significant change but from where we were in Q3, we expect Q4 to be slightly better.

Abhishek Nigam: So my question was, if I look at realizations in this quarter, there's been clearly stable, clearly resilient despite cotton prices coming off. So should we expect realizations to largely stay here? Or should we expect them to sort of get slower?

Samir Agrawal: Maybe we did see some reduction in the realization between last quarter and this quarter. And quite obviously, it's a set of B2B businesses, where prices realized do reflect the underlying raw material other costs, however with a lag. So that trend as cotton prices continue to soften, you will see even in next quarter. So there will be some softening just like we have seen some softening between last quarter and this quarter.

Abhishek Nigam: And last question for me. Any capacity expansion, which is planned for '24, '25? Or will you rather wait for PLI 2.0 to clarity before you make announcement?

Samir Agrawal: Right. So for garmenting, obviously, we are waiting for PLI 2.0. We will have more clear guidance on what capital gets allocated to AMD or garment perhaps in the next call. But directionally, we are looking to invest and build capacity in AMD and garmenting, about INR 200 crores to INR 250 crores, at an company level.

Moderator: We have the next question from the line of Biplab Debbarma from Antique Stockbroking.

Biplab Debbarma: First question is on your investment plan, sir. Earlier also, you have indicated that you would be investing around INR 200 crores, INR 250 crores in AMD and garmenting. This INR 250 crores of investment you are mentioning, is this the same plan that you mentioned earlier? Or...

Samir Agrawal: Right, our capex this year should exit north of INR 200 crores, which would be slightly better than what we had indicated earlier. Next year, we expect to be in the similar range. Actually better. We're targeting to invest about INR 250 crores. But we will have more clear plans perhaps in the next earning call.

Biplab Debbarma: Sir, this year, the capex that you did, is it some augmentation of capacity? Would you be saying that the capacity of let's say, AMD or garment has increased? Or this is the common maintenance or premium bottleneck kind of capex?

Samir Agrawal: At a very high level, about 40% of our total capex this year, has gone into AMD and in building newer capacities. About 20%, 25% would be towards cost optimization in businesses, like Denim, Woven, power cost, etcetera. And rest of it is scattered. The capital, which has been allocated for garmenting sort of is deferred simply because PLI 2.0 has been delayed a little bit, but we are looking to invest that in garmenting as well once the scheme gets announced.

Biplab Debbarma: My second question is on the Denim business. Just trying to understand, sir, actually, what is ailing this business or this sector because we have been seeing momentarily some good numbers coming from this segment. But in general, time and again, we see Denim seeing challenges. It's not the first time we are seeing same challenges in Denim business. So what ails this Denim business? And what is your future projections about this business?

Samir Agrawal: So let me give a shot and I'll invite Jayesh bhai to kind of add his longer experience years. See, I think there is, if you take and you are talking about last many few years, which is where this cycle you have seen play out, right? It's a combination of demand and supply both side factors. In a little bit of past, what has happened is that, especially the Indian context, the capacities have continue to get augmented, especially in India.

And as we have shared in this call few times, the installed capacity in India for Denim fabrics is close to 2 billion meters, which is almost 2.5x to 3x of the total demand, domestic and exports combined. So there is a oversupply thing which continues to be an overhang across the board over any period of time, in the recent quarters.

On top of that, in recent two or three quarters, as we have been sharing, what has played out is that post-COVID, there was a buying surge in almost same time last year. And as demand surged, many of our global brand retailers were forced to do air shipments and all to fulfill their immediate needs.

That, in turn, prompted them to prepone the buying. So if you see our Q3, Q4 results last year, they were sort of super normal because the buying which used to happen, let's say, in April, got pull to January, February and so on, which naturally meant that at some point when the buying cycle went back to normal, there would be a trough.

So what happened this year is that we have seen a trough play out in parallel with the softening prospects, for the retail demands, because of all the macroeconomic factors playing out in the global market. We all have heard about the consumer confidence going down, the inflation and so on and so forth. So all these have kind of together hit the volumes.

As we speak, the reason why our global brands are not buying it because of the uncertain consumer demand and hence, they are not wanting to take long positions. And definitely, that is, what is happening from my perspective, I'll request Jayesh bhai to may be add a bit more.

Jayesh Shah: I think there is a sector in Denim as unlike what you see in Wovens, which is related to cotton. So if you see cotton has been at a historical high levels. And every meter of Denim uses almost 750 grams or thereabouts of cotton. And so, when you price the Denim garment with the fabric, which is almost selling like we are selling cotton, which is at a very high level, the final retail product gets out priced compared to any other product category. So if you look at our Wovens, which is also using cotton, is producing almost 6 linear meters out of 1 kilo. And Denim is almost like 1.3 meters out of 1 kilo.

So it is very, very sensitive to cotton, and looking at where we are in cotton, the current market price, minimum support price in India, the 10% import duties that India has, Indian Denims are more expensive than global Denims.

For example, today, if you see cotton, Indian cotton is more expensive than international price of cotton. So unless this equation changes and India earlier needs to be always more cost competitive as far as cotton is concerned, there was a 10% interest in Indian cotton was lower always, it is reverse as of today and this doesn't change till that time Indian Denims will find it difficult in marketplace to compete.

So the right strategy for now is to scale down capacity, maintain margins and profitability and do not deploy fixed capital into that business till this equation works out in your favour.

Biplab Debbarma: So sir, with that means that two factors. One is that our products like cotton prices has to come at par with international prices or a bit lower than the internal prices -- international prices, that's the first one.

Second is overall demand environment from exports has to come back, some way also to the normal level, right? So these two factors have to play out. My understanding is correct, sir?

Jayesh Shah: I would put it in this manner that there may be slight changes in demand globally, some postponement, particularly, it may hit our company, which is very close with one brand and that brand gets into oversupply and all that situation. But the fundamental is going to be cotton.

If cotton doesn't correct, because there is always Denim consume. Now whether you can sell or some other company or a country can sell will depend upon what is the cost competitiveness of Denim. And today, as we speak, India is not competitive in Denim market.

Biplab Debbarma: So the quarter price at -- if it is at INR 60,000 or INR 55,000 or INR 60,000 per candy, even then it is not competitive. Am I correct?

Jayesh Shah: We have to see it, refer it -- yes, it is -- at that price, that cotton Denims are expensive. And if we are 10% more expensive as a country compared to, say, just to give you an example, Pakistan, then obviously, Indians got -- Indian Denim mills will find it difficult to compete.

Biplab Debbarma: And my last, third and final question is on garmenting. Sir, as you mentioned that we have been flat. Your focuses is on the garmenting business as well besides the AMD, and this businesses has been flattening at around 8 million pieces for some time. And sir, what could be the reason, suddenly we are flattening, and this -- if my understanding is not correct -- is not wrong, that if the garmenting business is one segment of the textile where still India is doing well, when we see the export done. Just trying to understand why it has been flattening 8 million pieces for some quarters?

Samir Agrawal: Right. So one reason why the garmenting volume came down in last quarter is deferment, customers bought post-COVID restrictions were taken out in larger quantities, and that created some inventory buildup, especially in US, partly Europe market. That basically created one impact where orders moved out.

Other was a bit of Russian war, which is sort of impacting emotions and consumer, let's say, buying demand cycle in Europe. But we are -- this is a business we are very confident about. And we have been saying that we are focusing on building capacity. We would have committed some capex by now. I mean, we are waiting for the scheme to get announced.

Strategically, this is as important a pillar as AMD for us. And in coming quarters, you would definitely see improvement. We have been focusing right now on improving margins, although we don't share garmenting margins, stand-alone margin numbers, but the margins have been improving. Our focus is on getting volumes back, and you should see that's coming back in future quarters.

Biplab Debbarma: Sir, then what gives you the optimism in garmenting and not so much in maybe Denim?

Samir Agrawal: I mean a number of factors. The customers who have deferred orders are coming back to us. We have a view of our order book. And we are also -- we have used this kind to develop some new key accounts. Also we are aggressively, more aggressively participating in domestic markets. A number of these factors are helping us believing that this indeed remains a very strategic area from a priority perspective for us.

Biplab Debbarma: And we will see the impact in this financial or next financial year on the impact of all these factors?

Samir Agrawal: So you should see a gradual improvement already going into quarter four. But the full impact would be visible going into next year.

Moderator: We have the next question from the line of Prerna Jhunjhunwala from Elara Capital.

Prerna Jhunjhunwala: Sir, wanted to understand the investment that has gone into your renewable energy capacity that commences next month? And how much energy cost reduction can we expect from this?

Samir Agrawal: Right. So we are -- so we have made some investments. And we are expecting an annualized basis, a saving of about INR 25 -- INR 20 crores to INR 30 crores depending on what gets delivered. This should start to be available to us starting from April.

Prerna Jhunjhunwala: And this year's capex was expected to be around INR 150 crores to INR 200 crores. And in this, it was Garment as well. So now you're saying that Garment will not be a part of this year's capex. Is my understanding correct?

Samir Agrawal: No. We -- so, Prerna, we still think -- of course, it will not depend on how fast Garment moves but basis our discussion, we anticipate PLI 2 should get announced very quickly. We are prepared with part of capital in garmenting and we think some part of garmenting investments hopefully should already happen this year. This is part of our INR 210 crores buildup. But for sure, garmenting investment was not as large as we anticipated when we started the year.

Prerna Jhunjhunwala: And actually, I'm also having the same question that an earlier participant asked, because garmenting for us earlier was a business, which will be derived from your fabric business. But now it is becoming a growth engine. So what has led to this change in view for us, be it customer interactions who are ready to source from you.

And they want more capacity from you or is it the share opportunity numbers from the global data points that we see? What is the actual trigger which has led to this optimism in the Garment opportunity? And can we have a structural view on where do we want to take this business over the next three to five years?

Samir Agrawal: So Prerna, I think there is a -- let me clarify this right. So garmenting role as a strategic enabler of fabric business stays the same. I don't think that we are saying that anything has changed on that thought process or that role of garmenting. All we're saying is that a much smaller portion of our fabric seems to be delivered as a vertical product, as we call it.

And as we scale up our garmenting capacities, larger and larger portion of our fabric business kind of becomes vertical and get secured in the process, of course, it helps expand the top line as well. So that's the limited point we are making when we say that we are putting garmenting as one area of focus for the growth and investments.

Prerna Jhunjhunwala: And any indications from the customers who are -- with whom you are dealing with, giving you more confirmation on using our Garment capacities a little higher than earlier or more higher than earlier, which is helping you scale upon your Garment business?

Samir Agrawal: Right. So Prerna, there are two things. One is a little bit of change after COVID the world is seeing and how Garment gets bought. A company like GAP historically, used to have their own fabric team, nomination team who deal with fabric manufacturers and then separate team who is working with garment manufacturers. I think companies more and more are taking garment backwards.

So they want to -- they actually prefer people who could take away the translation risk on fabric getting converted or public quality issues, which one faces in the chain or delays. So they are preferring more and more, and this is what we are hearing from a number of customers.

People who can deliver end-to-end garment to them, and companies like us who are vertically integrated have deep relationships becomes the natural choice because they also know we have complete control over value chain, including quality. So this is one change we are seeing from a couple of our large customers. And this is also a conversation we are having with some new customers, which are in the process of developing. But this is a direction a lot of large garmenting companies, large brands taking as we see in the last six to 12 months.

Prerna Jhunjhunwala: Any colour you could give on strategy where you want to take this business in over three to five years?

Samir Agrawal: Three to five years, I mean, this business should develop in terms of revenue. And that's directionally where we are working on. You will see next year, capital allocation also going into this business. And perhaps we can throw a little bit more light once we are clear with next year plans.

Prerna Jhunjhunwala: Congratulations on your debt reduction efforts where you reached INR 1,500 crores at the end of this quarter. I just wanted to understand, this INR 300 crores that you mentioned on your slide on long-term debt reduction, for this year, how much of this has been done already? And how much can we expect in fourth quarter?

Samir Agrawal: So we have, I think, repaid just over INR 200 crores so far and expecting close to INR 100 crores in quarter four.

Prerna Jhunjhunwala: And sir, one more thing. Interest cost has not started declining despite the debt reduction. So can we see that coming in from fourth quarter?

Samir Agrawal: So what is happening, Prerna is, while our total debt is coming down, the cost of debt is going up, and that sort of nullified each other. So perhaps next year, I mean, we have no control on where the interest cost will be. But we are confident that it will start to gradually ease down going into next year.

Moderator: We have the next press the line of Monish Bodke from HDFC Mutual Fund.

Monish Bodke: What is the capex which we have done in this wind, solar installation?

Samir Agrawal: Your question is how much capex?

Monish Bodke: Yes.

Samir Agrawal: The total capex is around INR 29 crores.

Monish Bodke: So on INR 29 crores, you are saying that there will be annual saving of INR 20 crores to INR 30 crores, cost?

Samir Agrawal: Yes, it's an SPV. And yes, about INR 20 crores, INR 25 crores arbitrage price saving we should expect to see versus our current reports.

Jayesh Kantilal Shah: So your question is correct. So the total investment is much larger, but it is done by a power company. We have 25% of cash as a capital. And as a result, what you said, equation is correct that is debt is about higher.

Monish Bodke: And sir, in terms of Denim sales, you were saying that there is a slowdown in the world that I understand, but even your domestic Denim volumes are significantly down. Now so, one reason could be higher cotton prices, but if I say that cotton prices have corrected now, should we expect domestic Denim demand to go up?

Jayesh Kantilal Shah: So actually, the demand does exist even today. But at this price of cotton, it's not profitable. So we could sell more, but it will be the returns from that investment of selling will not be lucrative enough right now. So the approach we have taken is to scale down the cost for some time. So that we can remain profitable and returns are better on capital employed.

But quickly go back to capacity enhancement or capex or invest are being in fixed cost enhancement as and when the market conditions improve. I think at this price of cotton, the threshold of certain value for the, what you call, INR 999 or INR 1,499 or INR 1,999 pricing is not working out for most of the brands. And that is why there is a demand.

INR 10, INR 20 of reduction can make a material difference because you come at a level of psychological price for the Denim garment in the market. So as now demand does exist. You will see all the all textile mills are, which are in Denim must be selling in India, and they are selling in India. But none of them will be able to make substantial profit out, in fact all there is any profit.

Monish Bodke: And sir, Denim export, you said that India as a country, we are not competitive because of the duty which we have to pay, 10%.

Jayesh Kantilal Shah: Right.

Monish Bodke: But that is true for Garments also. I mean, Garments, we are not competitive as compared to other countries. So I mean, is there any risk in our Garment capex over medium to long term?

Jayesh Kantilal Shah: No. So when you look at Garment, the element of cotton in Garment goes down substantially, right? Other costs come into play. Unlike fabric, which is pure mix of a valuation and balance sheet all cotton. So cotton will constitute, say, 65% or thereabouts of fabric sales price. It will constitute about 25% to 29% of our garment sale price. So that makes a difference. You can sell at slightly lower margin the Denim garments, but that when it comes to fabrics, you will find it difficult to make money.

Moderator: We have the next question from the line of Saket Kapoor from Kapoor Company.

Saket Kapoor: Sir, firstly, for the capex part, what has been our capex for the nine months and for the balance part of the year, what has been planned? And then for the next financial year, along with -- in which segment we will be put this spending demand?

Samir Agrawal: We've answered this question already. We said that this year, we are totaling it to about INR 200 crores, INR 210 crores by the end of this financial year. And next year, slightly higher, somewhere around INR 30 crores to INR 40 crores is what we are talking about. So we've answered this question earlier as well.

Saket Kapoor: And which segment, sir?

Samir Agrawal: So we've said we have -- it's going to be focus around growing our capacities in AMD and Garments as the primary focus.

Saket Kapoor: And can you give more color on what has been the utilization levels, especially for the Denim segment? You have spoke about woven I think so, higher at 100%, if I'm not wrong. But what has been the capacity for Denim for this quarter and for the nine months?

Samir Agrawal: So capacity is a little bit irrelevant, simply because we are choosing to sort of cap the volume which we want to produce. Because of the external reasons, which as per I just explained. So we are operating right now at 60%, 65% of our -- in capacity, but that's what we have chosen to do in this market condition. Our focus is on profitability. And Denim as a business still remains EBITDA positive and with a positive ROC.

Saket Kapoor: So that means we have the flexibility to produce -- we have the flexibility to have -- to be in either of the category not to be in the value chain Denim need to be produced. This is what you are trying to convince?

Samir Agrawal: Sorry, your question is?

Saket Kapoor: Sir, I was saying to -- yes, sir.

Samir Agrawal: Are you saying that capacities in woven's and Denim are interchangeable? Is that the question? What's the question?

Saket Kapoor: Yes, sir. As you mentioned that we can -- whichever is profitable or as the market conditions demand we can interchange. That was my understanding, sir. How does that work?

Samir Agrawal: No. Denim is a different product right from spinning stage is required for different headcount. And hence the capacities between Denim and woven are not interchangeable. What we said is that we have right now recalibrated our Denim capacity and fixed costs to reflect the volumes which we have seen in recent quarters and the near future. If and when, if our demand scenario improves significantly, we will scale things back up to service the market. That's all we said.

Saket Kapoor: Sir, can you give more colour on the order booking status. As in your presentation, you had mentioned about the US and the European markets your customers are not in the best of health and the demand is on the lower side. So...

Samir Agrawal: As of now, the Q4 situation looks very similar to what we saw in Q3. It is starting to improve a little bit. But as things kind of unfold in the next few weeks, we will know what Q4 has involved for us. But I would say broadly similar but somewhat positive as compared to Q3.

Saket Kapoor: Right. A few more questions. So firstly, on this green energy part, the investment we are making upwards this investment. What should be our energy mix, the convention and the non-convention part?

Samir Agrawal: Our relievable cover will improve to about 45% of our total consumption.

Swayam Saurabh: No. So I think our relievable consumption will improve from about 7% to about 26%, 27%, 28%. 45% is the full year. So and that's the maximum with current hybrid loss from it. But we are also looking forward to possible redeem change where perhaps an enhanced ceiling could be allowed. When that happens, that would see a further value because we will be looking to participate.

Saket Kapoor: So out of this total energy requirement, 28% would be derived from the green energy that being the ceiling. That is what you have conveyed?

Swayam Saurabh: That's correct. Right.

Saket Kapoor: Sir, and you spoke about the interest cost, cost to our fund also moving up. So can you provide what is the blended cost of fund for us separately for long-term and short-term borrowing?

Swayam Saurabh: Blended cost for us is 6.5% in this quarter, and that has gone up over the year by almost 1%, 1.2%.

Saket Kapoor: Correct, sir. And what is the RoDTEP receivables, sir, we have in our books currently? And what percentage of our sales is export denominations? Is it converted to the exports?

Samir Agrawal: Yes. So RoDTEP, we have -- as the value of RoDTEP started to improve, we have started to liquidate. In fact, as a matter of fact, very recently, there is a RoDTEP amendment announced, which should provide, let's say, additional margin opportunity for us. And -- but RoDTEP as a value, I mean, total pool which we had is largely liquidated.

Saket Kapoor: And you've mentioned that the discount has narrowed. So can you give the comparison, sir? Mostly, you were speaking about the discount getting...

Samir Agrawal: 97% and 98% today.

Saket Kapoor: Two line items that I have. For the employee benefit expenses, I find that to be on the higher side and also in commensurate to the revenue. What should be the number as a percentage of sales should we look ahead as the employee benefit expenses? This quarter it is at around INR 218 crores.

Samir Agrawal: I think you should look at YTD and that should be factored in, let's say, if you are projecting future quarters.

Saket Kapoor: Sir, Q-on-Q was it the mix that led to the lower employee benefit at INR 205 crores on a top line of INR 2,170 crores?

Samir Agrawal: It was also explained earlier. Our revenue is a factor of volume and price. And price has a large underlying element of cotton. So these percentages, quarter-on-quarter might not give you a right reference. But using YTD number and employee cost as a percentage would be a good reference to plot future.

Saket Kapoor: And about the other expense part, sir, that has also fluctuated by the 10% vis-a-vis the revenue decline is there, but how should one look at this line item of other expenses at INR 512 crores?

Samir Agrawal: It should be very similar, again, if you sort of take an average of YTD number, this is what we should look to plot.

Saket Kapoor: YTD revenue you mean to say nine months -- versus nine months, that is what you are...

Samir Agrawal: Right. What we can also do, you can get in touch with us and our investor relations team can provide you more information.

Saket Kapoor: I will definitely get in touch. And sir, lastly, on this purchase of stock in trade part also. How should -- what factors led to this change in numbers?

Samir Agrawal: Noted. Since there are other people in the queue...

Saket Kapoor: I'll get in the queue.

Moderator: We have the next question from the line of Vikas Sharda from NTAsset Management.

Vikas Sharda: It will be quite helpful, if you can comment on the change in CEO, the resignation and the reappointment of Mr. Jayesh Shah.

Jayesh Shah: Sure. So, Swayam who joined us about year plus back is looking to getting to some profit center opportunity within the group, starting with cotton and other raw material purchase and that was conflict. So as a call -- as a policy, the Audit Committee recommended that we shouldn't be having a conflicting role. So even the part of immediately, he will start with the largest purchase item which is cotton, which is at INR 1,100 crores to INR 1,200 crores is what we consume as a first job. And then, of course, he will start up growing the organization.

Vikas Sharda: Sorry, your last part was not clear.

Jayesh Shah: What is -- what last part is not clear?

Vikas Sharda: That he will look into the cotton or...

Jayesh Shah: That's correct. That's what I said. That last part, I said that, that he will immediately start looking at purchase of cotton. We are already in that season. And he wants to kind of grow into more on the business side than the on the controller side for now.

Vikas Sharda: Okay. So would you be actively looking for another replacement? Or what is the plan?

Jayesh Shah: Right now, I resume the role. I mean, I have been with the company for some time. And I have resumed the role as CFO.

Vikas Sharda: Understand. And another question is on the tax rate. So this year, it appears to be low. What is the full year expectation? And how should it be for next year?

Jayesh Shah: I think -- so it's more the onetime, which is currently built in Q3, which is there as a part of a note to our lesser note which has gone. Our tax rate will be around 22% to 23% for the year. You could assume around a similar percentage next year.

Vikas Sharda: And finally, just one more question on the GST Cess write-off, which is in the notes that it INR 14.5 crores?

Jayesh Shah: No. It is part of that is GST write-offs. The balance is a political contribution by way of electoral bond.

Vikas Sharda: So how much is the political contribution?

Jayesh Shah: It's about INR 9 crores out of INR 15 crores or INR 14.5 crores.

Moderator: We have the next question from the line of Neerav Sawai from Abakkus Asset Manager.

Nirav Savai My question is regarding the AMD segment. We have done some debottlenecking during the first nine months. So what can be the optimal revenue, which we can achieve from the existing capacity?

Samir Agrawal: This capacity augmentation through debottlenecking is ongoing process. And if you remember what I explained about the portfolio itself is three clusters. Within each cluster, there are multiple product market lines. And hence, I can't give you a specific number. As and when we can keep expanding our volume and the run rate, whichever parts comes in the way of further growth we go ahead and debottleneck that through additional investments in some cases, are sales or in some cases through partners.

Nirav Savai: So the order book, what we have is it long term that we get the visibility of a 20% plus growth. Let's say, for next two, three years. Are there clients who would give us a long-term kind of an order which as a repetitive in nature?

Samir Agrawal: No. So the way the business works is that it's not as if we have order books which are logged in for next several quarters. That's not how it works. But what happens in this business is that you develop a set of customers and accounts over a long gestation period, which typically involves clearing a lot of certifications and compliance requirements.

As such, it's slow and steady build. And hence, typically, it's hard for anybody else to come and knock you off. So what we are having confidence on is the basis of the accounts where we are continuously seeing improvement in the share of wallet and also gradual addition of new accounts. And that's the basis for us to say that the business is robust and growing, and we don't see any problem taking this business grow at 20% plus for the next few quarters.

Nirav Savai: The second thing is for the strategic customers in the textile business, do we have customers which give us sort of locking a plan for capacity for, let's say, six months or two to three quarters, where we have visibility of orders in our hand. Do you have those kind of strategic customers? Or how do you -- what kind of customers are exactly classified as strategic customers?

Samir Agrawal: So even in textiles business, the nature of how the relationship is built and the kind of way the buying happens is not that different from what I talked about AMD. These are accounts which have worked with us as key partners for several years, maybe in many cases, more than a decade.

The buying cycle traditionally has been two seasons, spring/summer and autumn/winter and the process starts about 18 months earlier when the time that is the merchandise reach the shelf. So you go through different periods of design alignment, sampling, pre-production and then the bulk production.

Now obviously, what's happening is that over time, brands are wanting to shorten the cycles and limit their exposure because their confidence, because they used to kind of forecast they are buying 12 to 15 in some cases, 18 months out. That confidence is getting lower. The world is going to a fast fashion.

So our buyers also are asking us to kind of expand and hence at any point, it's not as if you'll have a 12, 18 months kind of an order book. But yes, we have conversations and discussions as a matter of routine in different stages.

Nirav Savai: That is subject to change, but they want to ensure the supply side issues should not be there in case the demand comes up.

Samir Agrawal: Absolutely.

Nirav Savai: And on the real estate monetization side, I understand that we were out about to get to INR 150 crores this year. So this would be the front of forex project, right? So this would be the last phase on this forex project? And when do we see this recognizing in P&L?

Jayesh Shah: So this year should see us about not INR 150 crores, should see us to get around slightly below INR 100 crores. This is largely coming from the forex project. We should see another INR 75 crores to INR 100 crores growth coming in the next financial year. And after that, maybe either end of the year, next year after or in the first few quarters of the following year is when we should be recognizing the profit on it, those are cash flow would have come in the earlier period.

Nirav Savai: And we had also classified some assets, which we were planning to liquidate or monetize?

Jayesh Shah: That is in the last year of getting government approval, and we're hoping that, that was done over the next -- within next financial year.

Nirav Savai: So, in FY '24, there might be another tranche of land which you would like to either sell it out or develop it through Arvind SmartSpaces?

Jayesh Shah: That is correct. That is correct.

Moderator: We have the next question from the line of Surya Narayan from Sunidhi Securities.

Surya Narayan: Just one clarity from Jayesh Bhai, regarding this cotton purchase. What is actually currency was expected in November-December that look prices would come down as the arrival increases. But that is not happening. So are we going to accept that this is the new normal in the cotton situation and cotton only drop or you say, currently around hovering around INR 170, INR 180 per kg. So are we at all going to have a price of below INR 150 anytime this year?

Jayesh Shah: So unfortunately, very difficult for us to predict where the commodity prices will move. Because it has a combination of fundamental factors, which we would say, where the demand is sluggish globally. The prices should come down. But there are counter factors where China market is opening up where consumption can grow. US cotton is not particularly -- production is not particularly as much as it was expected to be.

So as we said in the earlier commentary, it is similar to cotton. The exchange itself is moving between INR 83 and then it's come down to -- it's below INR 81, it's back between INR 81 and INR 82 now. So they are volatile. And in that situations, we currently -- we are avoiding taking a view, and we are doing mid based purchase.

Surya Narayan: And secondly, sir, regarding the renewable side, you have around INR 560 crores of expenses forsee to par for last year. So just to understand, one of your colleagues told that, this is the maximum of capacity we can think of -- for the renewal is concerned. So what is the SPV retail channel business deal, so that I thought understanding that only 5% of investment has gone into that SPV. So what sort of capacity that is and if you can give some clarity on that?

Jayesh Shah: No. As we said, we have invested INR 25 crores as an investment into a power SPV created by a power generating company, which gives us certain power as we mentioned earlier. That will give us an annual saving of INR 25 crores.

Now to the question whether we can further reduce the power cost. There is a representation and I would say, active discussion going on with the government to remove the cap of 25%. And if and when it happens, we will further try and invest or get the renewable share of renewable increase. It's anyway is our aim that we want to become more sustainable. So -- but it is currently, as we speak, we should take only this, because that's what the reality is.

Surya Narayan: And sir, from the US market side, are we seeing any kind of good -- I mean, demand returning for the summer season -- and especially...

Jayesh Shah: So my colleague mentioned that there has been a reasonably good uptake in the US as well as in Europe, much better than what was expected. It has to translate into that is putting an order as of today, everybody is a little cautious having bond, having inventory pile up and everything.

So we believe market will start to respond back in terms of demand. Maybe it's not three months, maybe within 6 months. But it is difficult to say how things are moving Indian market and everything.

So for now, we are just playing a conscious game for months -- few quarters. Let's see what happens I mean if -- there are definitely -- the upticks are under so much of pressure as we were CRE, which is a good thing. But has it translated into demand generation? So far, no. But possibly there will be, when we speak next time, we could give you more update on what's happening with our customers.

Surya Narayan: So how the company is looking to accommodate the elevated cost year-on-year? So when we -- when you talk to the B2B customers...

Jayesh Shah: If you look at -- the question is that whether the demand will never come back. That maybe a challenge for three months. That may be a challenge for 1 year. But since you said year-on-year, that's why I'm responding. It's not a year-on-year demand problem. Otherwise, there is no point in remaining in textile business, right?

So we believe that this is a phase which we have to pass-through, through and we are strong enough as a company with debt reduction, with bridging fungibility and are flexibility to reduce capacity as and when we need to. We'll be able to pass through this short-term period, but we are continuing to invest. That shows that we are believing in the long-term or medium-term prospect for this investment.

Surya Narayan: And regarding, sir, the AMD business, just to understand what is the total addressable market we are capping to? And how the addressable market could be growing and where we are placed it? I mean in terms of broad figure of our market share, because I understand that it is not possible to detailed out at least if you can give you some idea as to what kind of addressable markets?

Samir Agrawal: See, I can explain this AMD is the collection of two set of businesses. Each of those sets have got multiple underlying lines. And hence, it's very hard to kind of put a market size for AMD. Having said that, I think the intent of the question is to understand what's the headroom.

Suffice to say that, we are still quite small in the global scheme of things. I don't think that we should bother about headroom for growth for next several quarters in each of those lines.

Surya Narayan: So any idea because my guess is that, my calculation says that we could be -- I mean, on the net-to-net basis, we could be heading for INR 100 crores of bottom line in the AMD business as that. So are we continuing to demerge the business away from this one of the total consolidated one? So...

Jayesh Shah: There is no such proposal before the Board as of today.

Surya Narayan: Sir, pardon sir?

Jayesh Shah: There is no such proposal that has been considered by the Board as of today. So then when there is anything on capital or business restructuring, it will happen only when the Board takes it up as an agenda.

Surya Narayan: And that's why -- regarding the Denim business, is it because the textile garment has -- generally has a longer way -- we live longer life. So is it the -- it is a long-term cyclicality compared to...

Jayesh Shah: I think I talked about it at length. Did you come just now into the meeting?

Surya Narayan: No. This aspect actually, I heard you. But this aspect actually, I'm just asking about the cyclicality has not mentioned. So just to understand.

Jayesh Shah: Long life of Denim has been for 100 years. It's not that the Denim has now become long lasting. I think as I explained earlier, there are challenges in the market. And there are synergies on the cost front in particular with cotton. I think that is the equation that needs to be corrected for Denim to become profitable.

Surya Narayan: I understood you cited supply side challenges rather than demand side. Understood, sir.

Moderator: Due to time constraints, that was the last question. I would now like to hand it over to the management for closing comments.

Jayesh Shah: So thank you, everyone, for taking interest and taking our time and joining our call. We hope to see you again in Q4 investor call. And hopefully, by then, we would have formed up our capex plans and next year plans, and we will be able to share some more detail on the outlook for the company. Thank you.

Moderator: Thank you very much. On behalf of Arvind Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.