“Arvind Limited

Analyst and Investor 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 1 of financial year 2023- '24, 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 then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Samir. Thank you, and over to you, Mr. Samir.

Samir Agrawal: Thank you. A very good afternoon to all of you, and thanks for participating in this call to discuss our first quarter results in this financial year FY '24 of Arvind Limited. Joining me today is Mr. Punit Lalbhai, our Vice Chairman and Executive Director on the Board; Mr. Jayesh Shah, who is our Group CFO; as well as an ED. Mr Bhavesh Shah, who Heads up our MIS and we have Mr. Satya Prakash Mishra, who has joined us as our new Head of Investor Relations. In fact, some of you will be familiar with him, and he will be your new point of contact going forward. And provide you with all the information and other inputs as needed, right.

Talking about the business environment before I get into the results, the environment overall as relevant for our businesses still is a bit uncertain. Disecting into two parts. The U.S. consumer demand has been softening, but contrary to what was suspected and fuel that in response to very sharp increase in interest rates to pipe inflation, it will fall off the cliff. That has not happened clearly right.

Quarter after quarter, most major brands and retailers have been reporting results, which have been slightly better than what they thought earlier. As far as Europe and U.K. is concerned, the political situation there has been already baked. I mean, the word is more than 1 year, 1.5 years over now, and there is no new information. So the political reforming outlook there is not changing.

So overall, the apparel demand globally has been relatively stable and sort of in a holding pattern. So while there is no great news, but there's no bad news also. And people are being cautious. Nobody has taken any long-term bet on which way that market will go. But overall, it continues to be stable and good. In contrast, the domestic textile and apparel markets have been seeing some decline for the last 2 quarters.

You may recall, last year was a bumper year for the initial 3 quarters and since Feb-March time frame, things have been softening. So as we stand, all eyes are on the Diwali buying season, Diwali this year is scheduled for mid-November. So the wholesale buying to service that demand is expected to start next month.

Talking of commodity prices, they have certainly come down, especially freight rates are now close to pre-COVID levels. Cotton price, which is our key raw material is at about INR55,000, a candy roughly speaking, which is closer to the MSP prices. Of course, pre-COVID cover reduced to be INR40,000, but compared to the pace that it has shot up to more than like a candy last summer. It's a huge relief, right? Now in this whole broad context, coming to the specific performance we've had, our first quarter results were quite good.

And very much in line with what we had guided at the beginning of the financial year. So it was sort of flat on a sequential basis compared to Q4 last year. So specifically in terms of numbers, Q1 revenues were INR1,853 crores. Excluding other income, our earnings before interest tax depreciation, amortization, EBITDA stood at INR180 crores, which translates into an operating margin of 9.7% overall for the company. PAT was reported at INR366 crores. A few comments on the segments.

Textile volumes, especially in the export markets, were quite stable. In fact, slightly stronger quarter-over-quarter. Denim volumes have started to recover, and we sold 13 million meters in this quarter. Woven volumes slipped by 300 meters, primarily in the domestic retail segment. Garment volumes also have started to recover and improve compared to previous quarter and stood at 7.4 million pieces. Overall, textile revenue stood at INR1,418 crores which was very similar to the quarter 4 of last year.

So in summary, the textile performance was flat as compared to previous quarter. AMD continued its growth, we have kind of guided that it will continue to grow at 20% plus, and compared to the Q1 last year, this year's revenues were 23% up. EBITDA margins improved to 15.5% and mostly as a result of the softer input cost and this resulted in the operating profit of INR53 crores.

Going forward, we expect volume growth in both garments as well as to a small extent in denim to continue in this next quarter. And we expect Woven to stabilize around 30 million meters and give us steady performance. So the slight improvement in the overall Textile volume should give us some operating leverage and that should transit into slight increase in the margins as well. As we have shared in the beginning of the year, we have embarked upon an ambitious INR600 crores capex program over a 2-year period. Which will help us boost up the AMD and Garments capacity.

So that continues to be on the track. And we expect the revenues in these growth engines to kind of keep inching up as time progresses. Textile margins should also see a modest increase compared to Q1. We continue our trajectory of reducing our long-term debt that has been one of our stated objectives and agenda for last several quarters. And even in the quarter gone by, we have repaid INR123 crores, taking the long-term debt levels to INR529 crores -- so overall, net debt stood at INR1301 crores, at the quarter end.

Overall, we expect that the long-term debt will continue reducing while the working capital will increase in tandem with the increase in the business volumes and activities. I don't know -- pause here this concludes my opening remarks. Before we open it up for questions, I'll request Punit Lalbhai to share his perspective on the market, the state of our business and overall performance. Thank you. Over to Puneet.

Punit Lalbhai: Good afternoon, everyone. It's a pleasure to be here. I would describe the current market environment is extremely challenging. And the fact that we achieved our budget for the first quarter under these circumstances come very close to our budgeted EBITDA numbers is quite heartening. If you look at the overall results, they are -- they don't show much growth. In fact, the growth from last year's Q1, which was actually in a very different market scenario, which was a full of positivity -- and since the year has progressed, we have seen challenging market conditions prevail for quite a while. However, if you look under the hood of the business, there are many things to be very optimistic about.

So I think Denim and garments that were showing very downward trajectory for many quarters in a row. I think the worst is behind us, and we started showing growth and future conversations calls for more optimism. The structural change, the One Arvind Policy is now in fully full effect. So the entire Textile business has been consolidated under one leadership. What that means is that we have a single cost structure, so consolidation of cost structure, consolidation of marketing resources and one sort of service level point for the customer. To where our entire vertical offering is much more coherent.

We see this will unlock value going into the future and already has been received quite well by all our customers. Of course, the Advanced Materials division, we are on target to deliver 20-plus percent growth as promised this year and quarter 1, we have achieved our budget numbers and 23% growth. So we are firing on all cylinders there.

So overall, I would say that the worst is behind us. What gives me that sense is that when we talk to our customers, the inventory situation is now finally looking like it's at a point where buying will begin. And so the future order book and volume, which has been the main cause for the flattish growth should start to see reversals.

Of course, in an uncertain world, predicting too far into the future is always full of hazard, but I do believe that the worst is behind us. So with that, I open the floor for questions. Thank you very much.

Moderator: Thank you very much, sir. We will now begin the question-and-answer session. We have the first question from the line of Bajrang Bafna from Sunidhi Securities.

Bajrang Bafna: Congratulations for a stable set of numbers in this challenging export scenario especially. So my first question pertains to -- on the export side. I think the entire basket of Indian companies are experiencing turbulent times and the volumes in the last quarter was not pretty significant. And it looks like the de-stocking which was undergoing in the global market, how the scenario look like maybe for coming Q2, Q3 and Q4?

Because the next seasoning orders are going to come any time now. So if you could guide on that, how are we seeing that market to play out in maybe coming towards the quarter will be really helpful? And my second question pertains to domestic side. Yes, it is true that for the last 2 quarters, we are seeing some sort of wellness because most of the tenders are also anticipating that the cotton is going to come down, which has already happened. So now can we expect the re-stocking to again begin in Indian market and which could see Q2 a little better than what we have seen in Q1 and maybe perhaps a far better second half? So some guidance on that will be really helpful.

Punit Lalbhai: Thank you for the question. So traditionally, if you look at our business, the second half generally is a lot better. So Q3 and Q4, just by the seasonality of how both the domestic and export markets work should be a lot better than Q1 and Q2. Last year was an exception. However, this year, we see it reverting back to the normal pattern where we are budgeting a much stronger Q3 and Q4. As far as Q2 is concerned, we do see an improvement.

The visibility shows that Q2 should be better than Q1. And then there should be, as you rightly said, better improvement in Q3 and Q4. The domestic market remains extremely sluggish, especially in the value price points, products under INR1,000 retail are struggling. The higher value price point is slightly better.

This year also, the festive season is a little later in the year. So we might see some prolonged sluggishness in the domestic market. But as I mentioned, the export market, the inventory levels are now looking quite well and brands would start buying in larger quantities. That is the expectation as we head into the second half of the year. As far as cotton prices are concerned, we are very close to the minimum support price. So the downward room is very little as far as we are concerned. We feel that we are quite close to as low as we can go.

Bajrang Bafna: Sir, just one on the Denim side and the especially on the government side, which were a little bit languishing for last 2, 3 quarters. Can we see both these segments bottoming out and maybe going into Q2, Q3, we'll be seeing some improvement in capacity utilization and as well as overall contribution towards profitability? So that guidance will be equally helpful. That's all from my side.

Punit Lalbhai: So Q2 -- Q1 is already better than Q4 on both these counts. And Q2 and Q3 should be slightly better. And Q4, as far as Denim is concerned, should be significantly better. So that's the seasonality pattern. Q3 is always a low quarter for Denim. But it will be better than we expect it to be better than Q1. So Q2 and Q3 better than Q1 and Q4 significantly better than Q1, and Q1 is better than Q4 -- so yes, the improvement trend should continue as we go through the year towards the latter half of the year, it should look significantly better. Can we have the next question, please? .

Moderator: We have the next question from the line of Zaki Nasser from Nasser Investments.

Zaki Nasser: Sir, and I think congratulations to the management for a robust set of numbers in visibly weak textile environment. Sir, we hear reports of textile mills, especially yarn closing down their production and yarn being available at multiyear lows. What is your thoughts on this? Would this -- would this reflect into better margins for Arvind?

Punit Lalbhai: So today, yarn prices are soft. However, the demand is also soft. And generally, in a B2B environment, the softening of raw material meat and in a soft market means that you also have to pass on some of those improvements. So while there is a lot of work happening on operating efficiencies and a more sort of leaner and more targeted organization structure those gains should stay with us. But to bank on raw material prices, giving us the overall margin improvement, I think that short lived. There is always a lag. So yes, short-term, lower raw material prices mean better margins, but we have to do more to maintain those margins and work is happening to ensure that we do.

Zaki Nasser: Sir, and this weak environment, could you just throw a light on how Arvind is different because we see weak numbers from various other textile companies, including yarn, including home textile, where does Arvind score over the pack, in terms of -- it is a very robust result in this environment here. So your thoughts sir?

Punit Lalbhai: So I think the way the year is planned. And the way we see it playing out in the market is that export buying should start increasing from here on now because the inventory pipelines are quite there. So as our volume will increase, it will help amortize the fixed costs and our margin should increase. So we'll refrain from quantifying exactly how much that will happen, but that impact should be visible as we go further in the year.

As far as Arvind strengths are concerned. We are one of the few players that can offer innovation, sustainability, design and verticality, all on one platform. And so our customer relationships over decades are extremely strategic. So from that perspective, we have an advantage over the vast majority of textile players that are like us globally. So I think that's our competitive advantage.

Of course, we have to do all the things that we need to do well, which is execute our garment expansion strategy extremely well. And then, of course, we have AMD where we are very uniquely placed where that is becoming a bigger and bigger part of our overall portfolio, where the competitive landscape the market conditions and the margin profile are all very favorable.

Zaki Nasser: You've announced a INR600 crores capex over the next 2 years. So what would be your thoughts on the debt level at the end of '25? Because over the past 2 years, you have been guiding that you would want to see the debt around INR1,000 crores -- up INR1,000 crores. So would you say that with the… ?

Punit Lalbhai: I lost you half way. Can you just repeat your last sentence, please?

Zaki Nasser: Sir, with the management guiding that they would like to see the debt sub INR1,000 crores, and we've announced this INR600 crores capex over the next 2 years. Where would you see the debt being at the end of '25, March '25?

Jayesh Shah: So for the current year and when we spoke in May about the current financial year, we said that we will continue to reduce our long-term debt, which was around INR650 crores then to by about a few hundred crores this year and a similar number next year with INR600 crores of expansion plan included.

However, we will not restrict ourselves to a number as far as working capital is concerned. Because as the business grows, we will continue to, of course, keep the norms very tight, but let the working capital growth to help us achieve our targets. But long-term debt will continue to trend down to as low as possible over the next couple of years.

Zaki Nasser: Thank you, sir. And my last bit would be, would we -- as investors see the magic INR10,000 crores figure in top line this year, sir? Thank you.

Jayesh Shah: So there is a hope that is -- it's not a question, it is fine, but if that was a question, I think our volumes are set to grow significantly. Over as Puneet Bhai just mentioned, every quarter, you should see volume growth coming in for various product categories, including Denim, Garments, as well as our Advanced Materials.

But there is a price deflation. So if you look at, say, getting price a year ago, and today, it's a 15% down because the raw material input costs have gone down. So in a way, why feel what, grow the volume, we aren't sure or we don't want to put a number on sales number. But we want to make sure that, A, volume growth, and B -- in line with the growth in volume, we improved our absolute EBITDA as well as percentage EBITDA.

Moderator: Thank you. The next question is from the line of Prerna Jhunjhunwala from Elara Capital. Please go ahead.

Prerna Jhunjhunwala: So I have two questions. One, on your INR600 crores capex, I would like to get some clarity where we are spending and how much when?

Punit Lalbhai: So we are spending mostly on AMD and Garments for growth. And we will -- we are doing maintenance capex in fabrics and debottlenecking capex in fabrics to be able to keep us relevant from an innovation and product perspective. So if we maybe, 40-30 AMD, Garment maintenance.

Prerna Jhunjhunwala: Okay. So 30% capex in garmenting, which means around INR180-odd crores to be spend in garmenting. How much of revenue increment can be seen on that?

Jayesh Shah: So Prerna, this should give us approximately 15 million garments as we invest this money. At an average price of about INR500 that we sell, it would be like between INR750 crores to IN800 crores top line.

Prerna Jhunjhunwala: Okay. And sir, do we have any benefits in the cost structure or garmenting business that we are expanding into Greenfield, Brownfield any area-related benefit, etcetera?

Jayesh Shah: So those are there, which are more relating to the capital expenditure, some sub-venturing or interest cost benefits or some labor subsidies will be there. But I think the way we are looking at building this plant will be completely differently and significantly higher on automation and less manpower dependent or skill-based dependency. So the -- maybe the capex will be slightly higher than what otherwise one would do, but it would help us reduce our operating costs and bring in efficiency and reduce the learning curve.

Prerna Jhunjhunwala: Okay. And if we -- though you have mentioned the average realization, will it be possible for you to share the product that we are trying to manufacture in this?

Jayesh Shah: Across the board, Prerna, we are investing in Augmenting Jeans capacity, in shirts capacity, our Mid-wear and Active-wear capacity. So we are in all the product categories that we are.

We are expanding. So because we believe that as soon as possible in next few maybe three quarters, four quarters, we will exhaust what capacity we have. And will need extra capacity.

Prerna Jhunjhunwala: Okay. That helpful. And sir, a little more bookkeeping question, this time, your margins have improved on a Q-on-Q basis in the core businesses. But on other businesses, we have faced -- we find it difficult to understand what has led to an PAT decline while our core businesses have definitely grown?

Jayesh Shah: Sure, Prerna. So let me try and explain this. So some of our businesses, which are smaller in nature, be it our Water affluent treatment business, part of some commercial or Telecom business, they are all project-based and we end up booking sales in phases as the project progress happened.

As a result, you see lumpy sales and profit booking. But when you look at a bit long term, maybe three quarters, four quarters, that will even out. So if you look at in the near term, if I were to talk about in the next few quarters, as we continue to maintain our AMD margin to between 14.5 and 15 and we see textile margin improving as we increase our volumes in Garments and Denim. Our overall margin, which stood at 10.4% in Q1 should also see an expansion.

Prerna Jhunjhunwala: Okay. So do we see these margins reaching 13%, 14% eventually in next three to five years, two to three years, five years is very long?

Jayesh Shah: Thank you, Prerna. We are all working hard to continue to improve margins from here on, and you will see that trajectory happening as we as we both -- I think there are two points. One is, of course, improving and scaling up our volumes in capacities where we have, which is Denim, some of the Garment, but also bringing about operational efficiencies within our system, as Puneet Bhai just mentioned about putting all the textile business under one leadership, making one Arvind -- all of that should give us enhanced operational, I would say, it would consolidate the operations and give us cost efficiency. So margin is that single most important focus area for the company, and we are also striving to achieve that.

Prerna Jhunjhunwala: Okay. Sir, this is helpful. I'll come back to question queue, if any further. All the best.

Moderator: Thank you. We have the next question from the line of Diplam Debvarma from Antique Stockbroking. Please go ahead.

Diplam Debvarma: First of all the best. Sir, it's good to see showing optimism in volume growth going forward. So I just wanted to understand this optimism is based on -- are you seeing some kind of increase in order book in Active segment? Or at least there is an increase in discussion or inquiry in this Textile segment. What is leading to you this optimism in volumes?

Punit Lalbhai: So there are three things that are an indicator of the future. One is the immediate order book that one has on hand for the next quarter. The second is the development pipeline that is slightly medium term for the next -- not the immediate season, but the next season. And third is the conversation that you have with customers around their business and how they are seeing the market. So on all these three points, compared to the past, the discussions that are ongoing are more positive. So we do have a more robust order book for Q2 but the order pipeline for -- the development pipeline for Q3 on the core textile business is quite robust. And three, we are consistently hearing across the board, especially with our export customers.

Then on the domestic side, as we enter the second half of the year, the festive season should come to the rescue. We are consistently hearing on the export side that the inventory clearing activity that was needing to brand buying significantly lower than what they would normally do. That inventory situation is now at a very, very healthy level, lower than pre-COVID levels.

So buying should begin. All these three factors give us the sort of indication that things should look better. But of course, you are very right that there is always going to be uncertainty until those orders are locked in. So while there's good optimism we still need to go through the time period with a cautious outlook, but we are cautiously optimistic.

Diplam Debvarma: On that also, sir, do you -- now in textile unit, several segment, you have Fabric, Denim, and Woven -- and then you have a Garment and other things. So do you think, based on past experience and based on your discussion, do you think all the textile segments would recover simultaneously?

So sir, suppose say, we hear suppose, tomorrow we hear that the export demand -- textile export demand is good now. Does it mean we should automatically, is informal textile segment would recover simultaneously? Or do you think some segment would see slower recovery and some would be faster recovery?

Punit Lalbhai: So I think if you study the recent trend, post-COVID, the work from home segments like Denim and Knits have really suffered over the last four, five, six quarters. So I think the optimism while Wovens has been strong throughout. So we expect no change in Wovens and we expect Denim and Knits to start showing Denim has already started showing improvement and Knit should start -- hopefully start showing improvement in a quarter or 1.5 quarters. That's our hope and is backed up by the conversations and immediate data.

Diplam Debvarma: And my final question, I missed that one. What would be the asset turnover ratio for this new capex that you are doing in garment and AMD?

Punit Lalbhai: So both garment and AMD are significantly higher asset turn businesses. So we can assume an average. I mean, it varies from segment-to-segment, but across board these categories, it should be a 3x kind of asset to turnover ratio.

Diplam Debvarma: 3x turnover ratio for on both AMD and Garments?

Punit Lalbhai: Yes, both are similar in that regard.

Moderator: Thank you. The next question is from the line of Monish Ghodke from HDFC Mutual. Please go ahead.

Monish Ghodke: Sir, what is the rationale of expanding into garmenting when our existing capacities are not utilized fully?

Punit Lalbhai: We expect them to be utilized fully by the end of the year. And if we don't start creating now, we will hit a bottleneck.

Monish Ghodke: Okay. And sir, like when I observe Arvind financials over a long-term basis, I don't see much of an operating leverage benefit kicking like from FY '21 when our revenue was INR5,000 crores in FY '22, it became INR8,000 crores, but significant improvement in EBITDA margin. Our expenses also increased. So what is the reason that we are not able to get that operating leverage benefit?

Jayesh Shah: I think, Manish, if you look at individual basis, so for example, when you look at Advanced Materials division, you will see that the LC turnover is growing, the margin is continuing to grow. In Textile, the '21, '22 and '23 have been very unique or very different kind of situation where the costs went up so much that the percentages are lost meaning. In a way, the cotton went up 2x, and we are in B2B business, so the actually, the price increase came as it a lag effect all the time.

So it will be, in a way, if you look at our gross margin, actually went down as the input costs went up. And now the reverse is true as the operating margins are -- or rather the costs are coming down. Our gross margins have started to look to pre-COVID levels. And unfortunately, at this juncture, we don't have enough volumes to see the operating leverage. But as Puneet Bhai said that as you see in coming few quarters as the volumes do increase, we see some kind of an improvement seen on the operating leverage on account of that in the margin.

Monish Ghodke: Okay. Because like FY '22, first half was the year when a lot of players had inventory gains because cotton prices rose much letter and many players had a cotton inventory at hand, which was bought at a reduced price. So even in that year, we didn't have a significant improvement in margins?

Jayesh Shah: No, we did not have Monish any inventory, which we had an inventory gain. So we were buying in FY '22 because the market conditions were so uncertain. That we were buying only based on the orders that we get. We did not take that risk of buying cotton inventory in absence of a market or order.

Monish Ghodke: And sir, even in this quarter, if I ask, I mean, on a sequential basis, our top line has reduced, but our other expenses and employee benefit expenses are still on a higher side as compared to Q4?

Jayesh Shah: So you are right. So every year in Q1, we do give salary increases. So that will take effect from April 1. However, these sales have not come in, as I again mentioned just a few minutes back, the sales have not come in. And as you see the sales coming in, you will see the percentages of overheads getting spread over higher turnover or higher volume, giving us the operating leverage.

Moderator: We move on to the next question, which is from the line of Surya Narayan Nayak from Sunidhi Securities. Please go ahead.

Surya Nayak: So if you can throw light on the status of the AMD and Garment division, the provision the capex, a,? Number two, with that any sort of new I mean, we heard some IP-related products to be introduced. So are we in the process to introduce new products in the current year or it will be a subsequent year? Sir, two questions.

Punit Lalbhai: So I think both garments and AMD investments are on track from two perspectives. One, we are building the requisite teams to ensure very strong execution and smooth sailing especially, on the garmenting side. And second, the capacity expansion is also happening. So I think we should be able to meet the guidance on the kind of growth that we are anticipating from these investments.

As far as products in the AMD are concerned, every year, we try and introduce products that give us a competitive advantage. And every year, we are filing new IP and that is one of the reasons why we've been able to grow so well in mature advanced material markets like the US, Middle East, Australia, Europe, and so that's a constantly ongoing process.

If you ask about the categories, we have three major segments. We have Human Protection. We have Industrial and we have Composites. And this year, we are going to see significant product capability enhancement across the board.

Surya Nayak: So are we entering -- as for the technology missions criteria of around 12 segments, so are we entering into any other areas like Sports Tech and other areas in major way, because we had presence, but we do derive very little from those segments?

Punit Lalbhai: No. So I think Composites has a component of Sports Tech where we make Carbon Fiber sports equipment. And that's a very young business for us. But in the future, we see very good potential in this product category going forward. So that's part of the Composite structure portfolio. However, we want to remain focused. So we will remain focused in these three verticals and avoid adding a fourth. There's significant headroom for growth globally in these three and we have a lot to do to achieve our ambitious targets.

Surya Nayak: And when can we expect the incremental capex kick in because we had around 20% of headroom available for this year? So, is it happening in the second half?

Punit Lalbhai: So it's a continuous process. But the bigger -- so the turnover of the investments we will make this year should start being visible next year.

Surya Nayak: Okay. And Jayesh Bhai what will be the taxation, it has spiked a little very negative to play. So whether you have guided, around 22% for FY '24. So…

Jayesh Shah: It would be at 22% as the year progressing. So we continue to drive budget 22% for the year.

Surya Nayak: And the Forreste project will be completed or any further investment to go this year? .

Punit Lalbhai: What project?

Jayesh Shah: It is -- we continue to complete the project and continue to receive cash flow. So net in close here also should be between INR50 crores and INR70 crores. But it is net of the expenses we are incurring. So the net debt, we still expect first couple of years to as INR50 crores to INR70 crores cash flows coming. In terms of booking of project completion, it should be more like next financial year.

Surya Nayak: Okay. And sir, recently, the yarn prices have melted quite a lot. So in this slide, we generally outsource the yarn except for the denim segment, so will it be suitable if we produce less internally and buy suppose because the competition is very high and the prices can go down to any level. So if that is the case, will it be making sense to outsource entirely yarn and rather than making in-house?

Jayesh Shah: So there are and fixed costs associated with the spinning assets that we have. If you look at what we are doing is that as Punit bhai mentioned that we are doing a lot of product innovations and making specialty fabrics. So most of our yarn, which we make in-house is something special and not commodity yarns. All commodities yarns we buy from the market, and we gain or lose based on the market price.

Surya Nayak: So what would be your outlook for the yarn segment? I mean, an area be will the yarn prices will be subdued for this year? Because what I'm hearing is that a lot of news because these are adding their capacities and resulting in one of the stored loss -- and if that is the case, will be in a better position going ahead. So what is your assessment?

Punit Lalbhai: So the yarn market currently is very subdued. And it will continue until one domestic demand exhausts because a lot of the yarn suppliers in India are very domestic market dependent. And second, towards the second half of the year, yarn demand should also pick up globally as the buying because of reduced inventory holding by the brands increases. So for some time, at least, it's looking like a difficult market scenario for yarn.

Surya Nayak: Fibre, what is total component of outsourcing? Is it annually 80% cotton or rest of MNF?

Punit Lalbhai: Yes. Something in the mid-70s should be cotton and the other 15%, about 20% to 25% should other Fibre as far as our Fibre blend is concerned. .

Moderator: Thank you. We have the next question from the line of Vikas Jain from Equirus Securities. Please go ahead.

Vikas Jain: One question from my side. Firstly, with respect to the textile segment, while there was some sluggishness or Q1 decline that we witnessed for the Denim and the Woven realizations, given the current cotton prices and which are, to a certain extent, a bit stabilized right now, Are we expecting a further decline in the realization given the 2Q visibility and the discussions that we have with the customers?

Jayesh Shah: So as you said, Cotton is stabilized and most commodity prices, in fact, are stabilized, they are in the starting from part of June and even now. So we don't see too much fall of selling price from where we are today. It will, of course, change based on the product mix that we do. So if the product mix is more towards premium products and more towards export market, which takes those premium products, the sales price may be higher or remain a bit higher. But otherwise, product to product like-to-like, we don't see too much of compression of selling price now.

Vikas Jain: Okay. Got it. Second question is with the AMD segment. While our capex plans is spread out over for the next two years, '24 and '25. Given the current AMD capacity, what is the current utilization and the peak revenue that we can do right now?

Punit Lalbhai: So we are sort of on an investment trajectory that will allow us to grow at 25%.

Jayesh Shah: So even this year, based on the investments we have done over the last couple of years, we should be able to grow at 25% and as we speak, some of the capacity expansions are coming into play even this year, later part of this year, so we should be able to continue the trajectory of the growth of 20% plus for next financial year.

Moderator: Thank you. We have the next question from the line of Jayant Mamania from Care BMS. Please go ahead.

Jayant Mamania: In case of Denim, in Q1 '23, our volume was 20 million meters, which has come down to 11 this month, it has reversed to 13 million meters. So just I wanted to know whether the Denim business was contributing to the bottom line during these last four quarters? And at what capacity the margins will be, say, average 10%.

Jayesh Shah: So, the Denim business has been positive throughout the four quarters that have gone by where volumes have been under pressure. Because our products that we are selling are at a much higher sales price, as you know, compared to the industry. And the margins have been closer to two-digit already, and we expect it to further improve as the volume growth come in. .

Jayant Mamania: The main reason for the drop in volume was the high cotton prices in India? So this year, the prices will be at international level. So will that add to add substantially to the bottom line?

Punit Lalbhai: Cotton prices were one of the factors. The overall market demand for Denim as a category also went through a sort of a very challenging period globally. And people bought more wovens and sort of cut down on Denim buying. Denim was one of the product categories, where international buyers have the highest inventories. So their buys have been the lowest in Denim, and that along with, of course, domestic -- as you rightly said, price, it got outpriced as a category for many consumers in the domestic market. So all these things came together to see a much reduced demand for Denim, which is now slowly correcting.

And in Denim, what has been unique to Arvind is that, we've done a lot of operational improvements and that has really on even a lower base, our EBITDA margins, which were low single digits at the lowest point are now close to two-digits. So there's a good improvement in operating parameters as well, which will hold us in very good state, when the volumes get better.

Jayant Mamania: So do you think with lower cotton prices, we can reach again to 20 million meters at end of this '24?

Punit Lalbhai: 20 million meters, I don't want to predict, but the trajectory of the graph will be upwards.

Jayant Mamania: Okay. So my next question is regarding our D2C business. This last quarter, we opened a 4,500 square feet shop in Bangalore for textile, so, what is the business plan for the retail business? D2C.

Punit Lalbhai: Retail business. So we have an overall B2C business that is across the group, something like INR800 crores, INR900 crores. That business currently because of the domestic sluggishness is in a challenging environment. But year-on-year, this business has grown extremely well. And we envision a very, very bright future for this business also.

So it is a very high return on capital employed business, where essentially, it's a branch play where our Arvind brand is what creates the value. So -- and it's a franchisee low capex model. So that will, of course, be adjusted to the market conditions. But overall, that business is on a high-growth trajectory as far as the midterm is concerned.

Jayant Mamania: Yes. Because as I understand, the Raymond is good at woollen business, and they are doing a turnout of around INR7,000 crores in Textile business. And Arvind is good at, say, Cotton Textile, Cotton Fabrics. So how we did in this quarter and what are our projection for the next two years, in terms of growth?

Punit Lalbhai: So this quarter, we de-grew a little bit from last quarter because of the challenging market conditions. But overall, if you look at the last couple of years, we would have shown very robust growth. Upward of 20%. And over the long term, short-term disturbances put aside, we should continue that kind of growth momentum in this business.

Moderator: Thank you. The next question is from the line of Hc Daga from Daga Associates. Please go ahead.

Hc Daga: First of all, that although the Arvind, is a apparels name, brand name, so far as the cotton textiles are concerned. However that - can you visualize that or can we just have that last three years, four years, how do you realize that the Arvind as a company and then what are the clear your plans with top line and both bottom line margin?

Punit Lalbhai: So we expect to, if you divide the product categories into the two big chunks, one is Textiles and AMD, verticalization should drive the growth of textiles in sort of the 10% to 12% kind of growth on top line. And AMD should grow at 20%, 25% between 20% and 25%. So we should be in the 12% to 14% growth on top line. If things go to plan, and bottom line, as we have been mentioning, as AMD becomes a bigger part of the portfolio, plus operating leverage, operating efficiency, garment factories performing better and better.

All of that if we factor in, we should see 200 basis points, 300 basis points improvement in the medium term from where we are. So definitely, the potential is there to do well, both on growth and profitability. And -- but there's, of course, a lot of work to be done. Some uncertain times to be navigated through and a lot of hard work all across the Board to be able to achieve that, but it's definitely possible.

Hc Daga: That would be really great. It will bring great benefit to the company and the stakeholders investors. Right now.

Moderator: Thank you. The next question is from the line of Bajrang Bafna from Sunidhi Securities. Please go ahead.

Bajrang Bafna: Just one humble submission Punit Bhai. A couple of fund managers request...

Moderator: Sir, your audio is not clear. May we request you to use your handset, please?

Bajrang Bafna: Yes. Punit Bhai, just humble submission, which I'm putting to you from the fund managers community since we are talking to a lot of them -- the other businesses part, creating a lot of volatility on a quarterly basis and making prediction of numbers pretty difficult for all of us -- so there has to be some solution [inaudible 0:56:32] product businesses, So some solution to this and predictability because more easier for us in for the submission from our side. Thank you,

Punit Lalbhai: Yes. Thank you. Suggestion is noted. We'll do whatever best we can.

Moderator: Thank you. The next question is from the line of Vikas Jain from Equirus Securities. Please go ahead.

Vikas Jain: Just one question. As Punit sir mentioned about a lot of streamlining of operations and bringing the textile segment entirely to one altogether, right, in terms of processes and everything. So what kind of synergy benefits or margin benefits can we expect if at all, the entire process is completed or it is like about to completed. What is the benefit that we expect to derive from that?

Punit Lalbhai: Like I said, that 200 basis points to 300 basis points improvement can definitely come with all these factors combined. So…

Jayesh Shah: He was talking about the One Arvind .

Punit Lalbhai: So One, Arvind, if you are referring to the One Arvind sort of consolidation. So the first benefit will come in terms of clarity on sort of the customer proposition. So we are starting with the customer first. Of course, in the long term, the operational benefits should also come like, for example, in Denim in some of those operating improvements have already started taking effect where 2%, 3% margin has already been unlocked in Denim, even at low sort of volumes.

So like that, we are in the process of quantifying across the board what it should be. But the short answer is that, there is headroom there, and we should see those benefits coming forward. It's a little early to be able to sort of start committing to those improvements before we have fully baked them internally. These changes are quite recent.

Moderator: Thank you. Ladies and gentlemen, we will take that as the last question for today. I would now like to hand the conference over to Mr. Sameer for closing comments. Over to you.

Samir Agrawal: Thank you, and many thanks to all of you for joining us. Our IR team is always there to take any follow-on questions and additional clarifications. So Mr Satya Mishra and his colleagues will be there. We'll see you in one more quarter. Thank you, and have good evening. Bye now.

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