"Arvind Limited Q4 FY20-21 Post Results Discussion Analyst/Investors Conference Call"

May 26, 2021

MANAGEMENT: **MR. JAYESH SHAH – EXECUTIVE DIRECTOR AND GROUP CFO, ARVIND LIMITED**
MR. SAMIR AGRAWAL – CHIEF STRATEGY OFFICER, ARVIND COMPOSITES
MR. VINAY SWAIKA - DEPUTY CFO, ARVIND LIMITED
MR. KAUSHAL SHAH - HEAD (INVESTOR RELATIONS), ARVIND LIMITED

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Conference Call for analyst and investors for post results discussion for Quarter-4 of Financial Year 2020-21 of Arvind Limited. As a reminder, all participants' 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Samir Agrawal, Chief Strategy Officer. Thank you and over to you, Sir.

Samir Agrawal: Thank you Faizan and Good Afternoon and thank you all for participating in this call to discuss the fourth quarter and full year financial results for the year FY '20-21 of Arvind Limited. Joining me today is Mr. Jayesh Shah – our Executive Director and Group CFO.

Before I begin sharing the financial results and the business highlights, I would like to acknowledge the tremendous support and resilience shown by our colleagues across the company including our plants and offices in dealing with the situation caused by pandemic. Over the course of this financial year, we had our share of challenges including human loss and suffering, facilities closure, and supply chain disruptions. On behalf of Arvind leadership, I admire and thank our teams for the commitments during these trying times. Now, I turn my attention to the results.

The fourth quarter was one of the strongest quarters we have seen in past few years. During this quarter, our business continued the momentum that we had shared during our last quarterly call when we shared with you all the third quarter results. The core textile business saw sequential growth in volume as both domestic and exports demand stayed strong. EBITDA margins also have returned to pre-COVID levels despite significant increase in input raw material and logistics costs. In terms of specific numbers, the Q4 revenues stood at 1655 crores overall which was 9% higher on a sequential basis compared to the previous quarter and 1% more than the Q4 of previous year which is FY 2020. EBITDA for the quarter stood at Rs. 208 crores excluding other income of 21 crores. Overall EBITDA margins improved to 12.6% for the quarter. Due to improved earnings and reduced capital employed, the company achieved over 12% return on the capital employed, so ROCE was north of 12%.

On a full-year basis, the overall revenue stood at Rs. 5073 crores and EBITDA including the other income was Rs. 514 crores. In the textile segment, the Q4 volumes were 113% of the previous year volume for denim, so we surpassed what we did last year by 13% and 112% for wovens. The domestic market has recovered to 74% for denim and 81% for woven in terms of fabric volume. While exports remain strong in Q3, the domestic demand showed a strong recovery as life returned to near normal and this was just before the second wave of pandemic hit us in late March-early April.

Garmenting volumes in Q4 increased to 92% of the previous year volumes. Across the board, athleisure, casual wear, essentials, and lounge wear have been seeing strong market traction in both domestic and export segments. Input cost increases that started during Q3 continued to stay firm are further eased up during Q4. As you all know, the cotton price have been increasing and in fact over the course of last 12 months have gone up by 40% approximately. Domestic cotton price were expected to see 50% increase in MSP as well. Other input cost into the dyes, chemicals, energy, packing, and transportation have also gone up significantly. We have responded proactively to a combination of price increases, tight cost management, and continuing discipline on our working capital. As a result, we had strong EBITDA margins in textile, which stood at 12.6% for Q4.

Our advanced material business continues to be robust and delivered Q4 revenues of Rs. 190 crores which was 11% higher than the previous year same quarter. EBITDA margins in the AMD business stood at 13.8%. We continue to see strong market demand for our AMD products.

During this fourth quarter, the net borrowings for us reduced by Rs. 132 crores. For the whole year, we were lower by 421 crores and the closing number for us on the net borrowing was 1951 crores, so again with the recap, this 1951 crores was 421 crores lesser compared to March 31st last year and 132 crores lesser compared to the December end quarter, so over a two-year period, we have managed to reduce 25% of our debt.

Looking ahead, we expect the export demand to be buoyant across most markets specifically US expected to scale very strong as the country sparks returning to the pre-COVID lifestyle following a very effective vaccination program. Also, it is expected that as the back-to-school season unfolds, July-August onwards, there will be a significant pickup in demand as most schools and colleges are going to open in fall.

Domestic markets have been adversely impacted for us because of the second wave and we believe it will start looking up by July-August assuming the pandemic situation does not worsen, so there is a bit of uncertain there. If situation improves, we expect the festival season and subsequent demand to be very strong as the retail pipelines are much lighter or empty as compared to last year when the channel was stuffed.

We also expect the input cost pressures to continue at least in the near future and we would be looking out to the Government to announce the RoDTEP rates, which have been kind of not known for some time now, and any of the relevant policy measures in this industry as well. For us, the lower capital expenditure and tight working capital management will further help reduce debt during the year although debt for Q1 will temporarily go up as domestic sales will be lower. We are also expecting an inflow of around 150 crores during the year based on the land amortization project which we are doing since last year, so that is the broad trends which we are looking forward to. We will come back with more specific commentary as the year progresses and some of these uncertainties linked to COVID are resolved or reduced, so that brings to end of my opening remarks and I now invite you to ask questions which you may have. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Nihal Jham from Edelweiss. Please go ahead.

Nihal Jham: Thank you so much and congratulations Jayesh bhai and team on the good performance. I had a couple of questions, first there have been various factors at play in the fourth quarter, especially in terms of freight cost and also in terms of raw materials, so if it is possible just to give a sense of what has been the approximate increase in each of these and how have we mitigated the same via price increases and cost reduction, a combination of which has helped us see an improvement in margin?

Jayesh Shah: As you know the cost increase started sometime in Q4 and for us whatever cost increases were there for the period which is the Q4 period, we were able to pass it on through two things, one of course we absorbed a little bit of cost increase through improving efficiencies as well as there were price increases that we got both in two main line products which is denim and woven, so the cost increase going forward also there are going to be further cost increases and as we sign new contracts with our key customers, we are able to kind of pass on the cost increases, however, it is more in terms of contributions that we are in absolute terms and not necessarily in percentage, so there may be a little bit of margin in a percentage drop, not necessarily in absolute sense, so that we believe that you know we should be able to maintain or improve our overall profits, not necessarily margin. In terms of there is also an uncertainty of this RoDTEP percentage which is a significant contribution comes from getting the refund of the duties that we have already paid and that is still not announced. We are hoping that it will get announced in this quarter.

Nihal Jham: What was the impact of not recognizing RoDTEP, ROCE either way in the last quarter of the Q4?

Jayesh Shah: So, well I do not know what rates to multiply honestly, but if I were to look at there was no, even in Q3 there was no RoDTEP, but there was that MEIS scheme and all, so if I were to look at 2% which is minimum, minimum rate that someone could get, it would be around 12 crores in a quarter.

Nihal Jham: That is helpful, last question on this line is that approximately you mentioned that in denim and woven you have taken a price hike, possible just to quantify approximately what is the kind of price hike we have taken?

Jayesh Shah: It has been the price hike has been about between 3% and 4%, and the product mix change also is giving you some kind of price improvement because there is a lot of change in the product mix that we have been doing, which is helping us to keep our cost lower to maintain our margin, so we may not necessarily see a price increase but we may see variable cost reduction because of certain programs that we have undertaken to save cost, so a combination thereof we have been able to maintain absolute gross margin in Quarter-4 and as a result EBITDA margins have improved because of the operating leverage.

Nihal Jham: Last question from my side, if I look at the data for India overall on the export of garments that has been encouraging, so just checking that for us we have seen a contraction, I will assume that Q4 is also a bit of a lower base because of the disruption that happened last year, so is it that it was certain customer specific issue or anything you may want to….

Jayesh Shah: No, in fact we had certain delays that happened actually, if you are asking for Q4, we had certain delays that happened in shipment because of container non-availability particularly in the month of March where our overall sales actually did not rise, so in fact we would have budgeted at least another 4% to 5% sales more than what we did, but we could not ship the goods out because of certain reasons, but that if I were to look at how the business can mold, I mean we were hoping that business will if the COVID had not hit, we would have planned for a 48-50 million garments this financial year had the COVID not hit us.

Nihal Jham: Would that be the number we are targeting for next year or it will be more than that?

Jayesh Shah: It is fluid and I think I would like to wait for situation to become little more certain before I make any commitment on the guidance because we do not know how would the run rate for H2 maybe like that hopefully, one does not know whether the wave three is coming or not, so it is a little uncertain for me to be able to put any number on volumes or sales guidance for now. I think important thing is that the market is there, demand is very strong as my colleague just mentioned. We have in fact orders more than what we can service, so it is just a supply side challenges that one has to overcome and that is really uncertain today to be able to put any number to any volume or a sales target.

Moderator: Thank you. The next question is from the line of Deep Master from One-up Financial. Please go ahead.

Deep Master: Hi Jayesh and team, congratulations on a great performance, my first question was on the demand outlook for exports in your discussion with customers, you said out of this obviously restocking maybe like a large component but are you seeing any structural shift, I know we have been talking about this for a while, but are you seeing the intent of the client to kind of reorient supply chains and are you being able to see early signs of more sustainable demand from our export markets?

Jayesh Shah: To answer in short yes, let me try and elaborate a little bit, giving you some nuances of how things are shaping up, so there are certain customers who were not buying from us and possibly not buying from India who have started buying from us in the last three to four months, so that is one indication that there are new customers, I am talking about global large customers so they are first time buying and buying in reasonably large quantities and based on the currently the, one of the indications of how our business will move is how we are getting request for new designs and samples from us gives us an indication of how it can move forward, so that is a fairly strong from the old and the new customer that is one indication. The second is the several customers who are our existing customers who are buying certain types of products only from or rather they were not buying from India and not buying from us and we have now started any reasonable quantities of those different product but products that we were not servicing them since ever in the past, we have started servicing them since last six months, so that is another indication that newer products and newer customers are being serviced by India, so based on that the answer would be that apart from the pent-up demand where things are orders are strong, these are other indications that the markets are looking reasonably good for India.

Deep Master: That is very encouraging, my second question was on advance materials, so obviously we had an impact of COVID this year, but our performance over the last many years has been great, so would you like to share any guidance on how the next 12 months or 18 months would look and are there any again some structural changes there that could make the business stronger in the coming years?

Jayesh Shah: Let us skip out the impact of COVID and that uncertainty, but keeping that aside, I think it is a business which is at a run rate of 800-850 crores when we closed the Quarter-4 and we believe that it will grow by 25% at least for coming few years if not little more.

Samir Agrawal: Absolutely, we have been building this business steadily for last about seven-eight years and it is a large business with multiple components. We had a point like Jayesh bhai said that we feel confident that this is growing and it will clock strong double digit growth and the reason we say this is that we are seeing over last three or four years for most businesses we have a core set of customers from whom we are getting fairly repeated businesses, and hence we feel that we have a solid base and as we add more customers and gradually kind of evolve products, so we are not adding more products but we are trying to evolve products to more higher and higher value products in each of the segments we play in, so with those two sort of levers we definitely feel confident that we will be seeing a healthy double digit growth for next several quarters to come.

Deep Master: My last question was just on the CAPEX, I know that we have been curtailing CAPEX and we have done a phenomenal job on reducing working capital and debt, is there some as we get towards the end of the year is there any thought of sort of doing more CAPEX, how do you look at this for the next two-three years?

Jayesh Shah: One is the short term during the year and then towards the end of year and something which is in the medium term, I think in terms of growth that we would want to do, I think we have enough headroom both in advance materials as well as in core textile business to grow business by 8% to 10% for next at least 12 to 18 months, I would say more like 18 than 12 on an annual basis

8% to 10% we can grow without any significant CAPEX, so we have enough headroom right now for us to grow. Now, what we want to do in this interim period is to further use the cash to bring down the asking rate or the debt as much as we can. As far as further CAPEX and the growth is concerned in the medium term, to answer your question yes we will have to invest in building capabilities to increase sales over next 18 to 36 months, and in that period our focus will be to do the last mile, to do specialty products, so like for example a year-and-a-half ago, we invested in active wear fabrics, we invested in knitted indigo and we of course invested in AMD and all of them in the Quarter-4 reached almost 90% of its capacity and we are further augmenting those capacity for this year as well, so we will be doing select investments to increase our top line or growth to bring our growth, but we will definitely not do things which we can outsource, so we will continue to build our base on outsourcing where we can get someone else to do things and we do not need to invest or operate those assets, we will continue to outsource, but balance we will start investing. One area where we will invest even in this financial year is in advance materials.

Moderator: Thank you. The next question is from the line of Sagar Parekh from One-up Financial. Please go ahead.

Sagar Parekh: Congratulations on good set of numbers, first question on this land sale what is the total amount of, so 150 crores is what we have sold but I believe we were looking to sell more I mean in terms of value right, in the last quarterly call we had mentioned about 300-350 crores expected term non-core asset sale, so could you highlight a little bit on that, please?

Jayesh Shah: Sagar we have put up, there are two types of land parcel that are getting sold, one is where we have been able to sell some land on an outright basis, which is actually to give us about 80 to 90 crores during this financial year and there is another land where we have given this land to our sister company to do development and sale on a management contract basis and that is about 250 odd crores of collection that we are expecting over a period of time, about 50 odd crore collection came last year. We expect similar or slightly more amount coming this year and that is the total of 150 that I talked about this year, but we will continue to get about 100 crores for couple of more years from that land sale in the coming years as well.

Sagar Parekh: Sure, understood, so 90 we are expecting on outright basis and then another 100 crores we are expecting at least for the next couple of years?

Jayesh Shah: Yes, and 60-70 crores from that development also we are expecting this year, so that is what we said 150 crores for the year and couple of 100 crores should come on 100 crore a year basis for next two years.

Sagar Parekh: Okay, so 150 this year and next year 100 and then the year after that also 100?

Jayesh Shah: That is correct, that is roughly the amount that we should be getting.

Sagar Parekh: Second question would be on the margin, so now with the cotton price increase further how should we look at the margins for further full year FY '22?

Jayesh Shah: First is that the margin will also depend upon what level of capacity utilization we do and that itself is uncertain, so it will be very difficult to say what will be the margin for the year or what is the guidance for the margin or EBITDA for the year. I would keep that for the next quarterly call, not now, let some clarity emerge. On a steady state basis as I mentioned to in earlier question, that we have so far been able to maintain margin and by passing on the cost or absorbing some of the cost through the operating efficiency improvements and we have been able to as a result keep the margin as a percentage, so gross margin as a percentage also constant, but going forward as the cost increase continue or we will be able to or we are hoping to manage our contributions in absolute sense to same that may impact margin in a percentage term to be a little bit lower but not in absolute sense, not in Rupees per unit.

Sagar Parekh: But any color on any further cut in terms of expenses, last year we had mentioned significant fixed cost reduction, so that will stay or they should be likely sometime in the future?

Jayesh Shah: You are right, so if I look at last year for example in whole year, we saved about 420 crores of fixed cost, but if I divide that into two parts which is H1 which was a period where there were closures of last year, that fixed cost got saved because we were not operating and as a result there were other cost which were not getting incurred at all, but if I look at only H2 which was reasonably high level of production, which was going on we saved about 15% of fixed cost which was about in absolute sense 100 crores for H2. Now, which we believe is the kind of cost between 12% and 15% is the kind of cost which is a structural saving, which we believe should continue.

Sagar Parekh: Right, so 100 crores for H2 means if I annualize that the 200 crore saving is possible for the year?

Jayesh Shah: No, so I said between 12 and 15, so it will be more like I would say 150-160 to around that number.

Sagar Parekh: My last question in terms of volumes for wovens and denims if I go back two years, we were at wovens we were doing about 34-35 million meters kind of number and denims also we were at about 24-25 million region kind of for quarterly, so assuming that now the demand is coming back and across all the three segments, garments, denims, and wovens we are seeing customers increasing our share of business to India, going forward can we see that quarterly volumes coming back or you think?

Jayesh Shah: Let me again, because of uncertainty I am not able to give you a clear cut answer, but if I were to differently answer that question saying that when we prepare our business plans in the month of early February rather without considering the pandemic impact of wave two, we have hope to sell 90 million plus denim and about 127-128 million meters of woven fabrics for this financial year, so now whether how much of that we will able to sell will depend upon the market conditions, but that is what we were hoping to do in a normal year.

Sagar Parekh: Understood, so 90 million and 128 million, and 50 million for garments is the normalized?

Jayesh Shah: We were looking at 48-50 million of garments, yes.

Sagar Parekh: Our capacity is 60 million in garments?

Jayesh Shah: Yes, slightly less now because we rationalized some capacity, but yes around that and it is easily scalable capacity also by a few millions.

Moderator: Thank you. The next question is from the line of K. P. Jain from Sundaram Mutual Fund. Please go ahead.

K. P. Jain: Sir, in the current quarter how much would be exports, roughly deemed exports in the current situation?

Jayesh Shah: Direct export for Q4 was 54% of the total and I guess about another 10% would be an indirect export in terms of filling fabrics to garment factories who would in turn make garment and export.

K. P. Jain: Okay, Sir secondly our debt has come down significantly but our finance cost is still not down much, anything one-off there in this finance cost line item?

Jayesh Shah: Last year we had our finance cost was 235 odd crores in FY ’20, it is now at 225 crores, so it has come down, however in 225 crores, we have written off 10 crores of TUF, interest subsidy which we have not received for a long time, so our auditors asked us to make the provision, so we have written off, so effectively for the year if I ignore that our finance cost for the year was 215 crores, for the quarter was 45 crores without any of these write-offs.

K. P. Jain: So, we should expect further more rundown in this finance cost expense sir?

Jayesh Shah: Depends on the, yes we want to further reduce the debt in this financial year depending upon how pandemic situation unfolds, but we directionally would go to our lower debt and as a result lower interest cost.

K. P. Jain: Sir, any update on PLI, like any update has just come from the Government that when they will be doing in our areas of manmade or the technical fibers?

Jayesh Shah: I am told that so for textile they have not announced it. They have asked for feedback from the industry and we have given the feedback last week, so we believe that it should come in this quarter.

K. P. Jain: Sir, my last question the tax rate like what do you expect in tax rate going forward?

Jayesh Shah: I think our tax rate would continue to be full at I mean around 32%-33%. Cash flow, in terms of cash outgo it will be only 17.5% because that is the minimum alternate tax we have to pay, but in terms of provision in the books because we will be utilizing the past MAT credits every year, we utilize that, so in cash flow terms it is 17.5, in accounting terms it is about 33%.

Moderator: Thank you. The next question is from the line of Prerna Jhunjhunwala from B&K Securities. Please go ahead.

Prerna Jhunjhunwala: Thank you for the opportunity Sir and congratulations on strong set of numbers, surprise on 12.5% EBITDA margin for the quarter and it has come after many quarters now, so I just wanted to understand how sustainable these numbers are for next one year and I am not talking about one quarter, two quarter but at least if this number is sustainable for FY '22 given that you have fixed cost savings and right now in the quarter you also experienced price hike, prices that can be passed on to the customers?

Jayesh Shah: I mean in some ways this question came up few times before, let me again try and explain that. We are currently, first is that we do not really know there would be some hiccups for sure in H1 on utilization of capacity so that will definitely bring some kind of impact on the margins and impact like June, parts of May and some part of June, all of our Karnataka plants are shut as you know and those things will impact sales and as a result fixed cost being there or the margins will get impacted, but that is the pandemic period. Now, if I were to look at H2, a combination of price increases, product mix change, and cost savings would help us to maintain margin in 11.75%-12% range is what we believe in percentage terms. In Rupee terms, we do not think there will be any deterioration in unit contribution.

Prerna Jhunjhunwala: Sir, at current level of operations, I mean almost not for this quarter but in last quarters to level of operations, how is the profitability in the garments business and what can improve it further, I am not asking for specific numbers, but are you operating in full estimated margin?

Jayesh Shah: Two things, profitability in garment was sub-optimal because we sold less than our capacity, we could not sell fully because of some container related issues that we faced in the month of March, but more importantly we did not make any provision for RoDTEP, so in a way if I ignore that as well and based our margins were quite healthy and I think going forward, we believe that margins will even improve further as we scale up our utilization, but I think that will happen only in H2.

Prerna Jhunjhunwala: Sir, one bookkeeping question, we have been seeing textile EBITDA margins in our presentation around 12% for the last two quarters, but this time we are seeing EBIT margin also being very healthy, so could you please help us understand what, how is the depreciation or other income impacted textile margin this quarter?

Jayesh Shah: Other income has not impacted, there are two impacts I think on, if you look at as a company with the ROCE or an EBIT if you are looking at, there are few things, A, textile margins have been around that plus/minus 0.5%, but every quarter there has been a debt reduction and every debt reduction improves or reduces the capital employed. The other thing is that every quarter we are depreciating by 75 crores, depreciation is around 70-75 crores. On the other hand, fixed asset investment is not even 10-15 crores in a quarter, so that further reduces the capital employed, so cumulatively when you look at for the year, there is an almost like 400 crore reduction in the capital employed and that helps to improve return on capital employed. Second is that there were non-textile businesses which are like our water business or our other smaller businesses which did not give any kind of profits or contribution in the first I think almost 8-10 months, and a lot of it got booked in this quarter and that is also as a result adding to profits and as a result adding to overall EBIT.

Prerna Jhunjhunwala: Sir, my last question is on your debt reduction target for the year, so you are raising also through NCD, so can you just help us what this money will be used for and will there be a net debt reduction even after raising this 200 crores?

Jayesh Shah: Under the company law, any NCD if you want to raise any time during the year you will need a shareholder's approval and that expires every financial year, so every time you need to take an approval. Now this is more of an enabling resolution to in case we wanted to raise funds during the year since we will be calling a general meeting, we want to take this approval so that we do not have to call another meeting should there be a need to raise the funds. As things stand, we are looking at reducing the debt, so there is no question about adding the debt, so there could be debt additions and debt reduction that we keep doing it either to change the repayment schedules or to save on interest cost, but they are all more of taking advantage of the cost arbitrage or whatever, but nothing to do with the pure debt, debt reduction is pure a concern of what free cash flow we generate and that we believe should be there subject to COVID conditions because we do not have any significant CAPEX program and we have certain cash flows coming from land sale.

Prerna Jhunjhunwala: Okay, which means so this is just provisional in nature, so it is not for any further cash flow requirement of yours, that answers it, and Sir one more question if I can fit in, on the China plus one demand structure, we were talking about realigning our product mix as per the exports market in the garments business and also the demand in woven fabrics if you could just help us in understanding the demand supply as you explained in the denim side last quarter call, so that would help us in understanding what is happening on the woven side as well?

Jayesh Shah: I am sorry I am not able to understand, can you please repeat.

Prerna Jhunjhunwala: First part of it is on woven fabrics, could you just help us understand the demand supply dynamics in the woven fabric business, and second part was on the realignment of our capacity as per the demand shift that can happen from China plus one strategy where are we on that and do we see China plus one actually playing out in the garment business for India?

Jayesh Shah: If you look at the data on last few years, I think China has lost good amount of market share. I think if I…however the most of the benefits have gone to Bangladesh and Vietnam and I think in India, India has grown, India's market share has also grown both in US and Europe and that was I think but it was significant as a percentage to the total number we have, but in absolute sense it was about 1% growth. I think it has something to do with the way I think our capacities, our Indian manufacturers capacities are and the way our I think cost competitiveness is which also significantly is constrained by the Government's policy on what actual duties that we are paying and whether they are all being refunded, so I think those are some of the challenges why I think India is not able to take a full advantage of shift. As far as Arvind is concerned, Arvind is getting more orders for sure and we are consolidating our position with some of our key customers, and I think it will continue to grow both in fabrics and garments, as we said that we have a plan to grow to almost full utilization in the near future as soon as the COVID conditions become normal. Woven demand is fairly strong right now and I think as I said in earlier call that some of the products that were not being bought by our customer from us, but they were buying from China and they started buying from us, one of the highest demand we had seen is in wovens.

Samir Agrawal: In terms of data, the biggest erosion of market share for China has happened for the supplies to the US where if you see the data between '19 and '20 those two years, it did grow about 6 percentage points and as Jayesh bhai said majority of that got split between Bangladesh and Vietnam. For the other markets, the market share movements have been relatively narrow and stable.

Jayesh Shah: I think India got some benefit, which was I think about a percentage or so.

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

Saurabh: Good Evening Sir, thanks for taking my question, Sir just continued to the previous response where you had mentioned that the garmenting, the China has lost share but the gain has been more towards Vietnam and Indonesia and maybe Bangladesh, but can India be an indirect beneficiary of the same because we may not have a very large garmenting capacities compared to Vietnam and Bangladesh, but we do have a large fabric capacity and maybe spinning capacity, that was question one?

Jayesh Shah: For the country, the demand for spinning as you know is very strong right now, it is for various reasons including some capacities going out and more importantly the GM cotton not getting used and as a result lot of Indian yarns being sold in international market. Also as I said there is a very strong demand for fabrics, across all product categories for Indian manufacturers for export market right now and it is a combination of both generally the demand being strong as well as some replacement demand also coming our way, so to answer your question on fabrics yes, we are benefiting. On garments because of our own capacities being limited, policies not being very clear, there are those, we are not getting a very large sizeable benefit out of that.

Saurabh: In a sense this can be a structural positive in terms of fabric capacity for us, for medium and longer term?

Jayesh Shah: It is true, so for a country like pre-COVID what we were hearing from machinery suppliers, there was very large scale textile investment which was being considered by various companies in India for increasing fabric capacities. We do not know how much of that will now actually come because of the fact that we all are facing, some of it may go away but to answer your question, textile is looking fairly in a good shape for some years to come.

Saurabh: Thanks, the second question which I wanted to ask was it was a combination of few questions which you already answered in past, so as you mentioned that in the beginning comments that we are currently, that the current challenge is more of supply side and less of a demand side, so assuming the supply side challenges are not there, how better we would have done over FY ’21 revenues broadly?

Jayesh Shah: FY ’21, that is a 5000 odd crore revenue right, so but if I were to look at let me give a different thing, because FY ’21 was a very different kind of a revenue, but if I look at …

Saurabh: FY ’20 or FY ’19, whichever year you think is the right number to be seen?

Jayesh Shah: If I were to look at Quarter-4 which was 1650 revenue which is a run rate of 6800 crore as opposed to top line of 5000 crore which we got in the FY ’21, the Quarter-4 run rate was about 6600 or 6800 crores, we would have grown by at least 10% over that had there not be a COVID.

Saurabh: Assuming everything is normalized in FY ’23, we assumed that COVID is behind us till that time, so can we do a turnover close to 8000 crores which we were very close to in FY ’20?

Jayesh Shah: It is possible with the capacities that we have, the plans that we have even in advanced material division, it is possible for us to aim at that level of sales without too much of investment.

Saurabh: Understood, and the second part of my question is you also mentioned that in H2 you expect the margins around like 11%-12% given I have heard it right, but in the current quarter we did around 12.5% and that to excluding?

Jayesh Shah: 11.75% to 12%, the reason I said, so it was in the context of cost Saurabh, so if the cost push is there, so if the cost goes up by Rs. 10 a unit, we may be able to get Rs. 10 and not 10 plus 12%

thereon, so as a result in percentage term you may a lose little bit certain maybe 30-50 basis point, not in absolute sense.

Saurabh: Sir, also on the time lag, there would be some time lag between, you would have on both sides as in when you were buying some bit of yarn, since the yarn spreads are now higher, so maybe the current pricing what we are getting is there any, they would increase at the same time the fabric which you are selling, they would also would be some timeline where the price increase will be there, so will not these negated over time?

Jayesh Shah: It is every time there is a significant cost push, you tend to lose for some months because your sales is already committed and our buying cycle of commodity is much shorter so as a result you buy near the production time while your sales might be for a longer period of time. Also with certain customers, we do a reasonably long term as in six to nine months of capacity planning for them because they are very large and big customers of ours, so it has a time lag impact and which we have to factor in but it gets adjusted over four-five months.

Moderator: Thank you. Ladies and Gentlemen, we will take the last question from the line of Resham Jain from DSP Mutual Fund. Please go ahead.

Resham Jain: Good Evening Sir and congratulations on very good set of numbers and recovery, so my first question is on the labor shortage, lot of textile companies are talking about this because of disruption in terms of factory operations and all, along with various inflationary pressure which you talked about is labor also one factor and how comfortable are we and as an industry people are on this side?

Jayesh Shah: Resham as you know largest part of our sales comes from plants in Ahmedabad and in both the large locations of our which is Santej and Naroda, practically 90% of the labor is from in and around the plant, they are coming from in and around plant, they are not migrant labor for us, so for us and in that area like in Santej or in Naroda, most of the other textile mills are which were existing in the recent past also have shut, so like there was VVM factory in Kadi area in Santej area which also got shut, so availability of labor for textile for our plants in Ahmedabad because they are not dependent on migrant labor is not a problem. Also cost is not a problem for us because there is a trade union agreement on which we are able to work on and there is no significant cost change that we are seeing. The issue that one is facing and that is I think very temporary and most particularly for Quarter-1 is that because of the large scale COVID spreading in and around Ahmedabad, there is higher absenteeism and as a result though plant is working, less people come in to the plant and that happened on a very large scale between April 15th and May 15th, it has now since receded and now more and more people as you know COVID, cases are also lower, so now absenteeism has started to get back to normal and as a result we are getting it, but on a medium term basis that issue does not, we are not seeing that as an issue. As far as garment factories in Karnataka are concerned, again they are mostly workers coming from

Bangalore and nearby Tamil Nadu villages and not migrant from other States like UP or those kind of places, so availability is a big challenge or a cost as a big challenge.

Resham Jain: Sir, my second question is on backward integration, so from yarn perspective now how much backward integrated we are in terms of our overall fabric requirement like for fabric division, how much yarn is internally integrated?

Jayesh Shah: About 60% on the company level in denim which is where the yarn spreads are maximum, we are about 80% integrated. In wovens, we are at about 45% to 50% integrated.

Resham Jain: This would have been little challenging in the last six months because of lack of integration to some extent, otherwise?

Jayesh Shah: Not really, our margins in last six months have been quite okay.

Resham Jain: Yes, I was saying relatively it could have been even better because of very high yarn spreads which companies are enjoying?

Jayesh Shah: That is true, we do not have yarn investment, there was Rs. 1.60 yarn spread one year ago.

Moderator: Thank you. Ladies and Gentlemen due to time constraint, we will take that as a last question. I now hand the conference over to Mr. Samir Agrawal for closing comments.

Samir Agrawal: That brings us to the close of this call. We will again meet in three months. Thank you very much. Have a Good Evening.

Moderator: Thank you. Ladies and Gentlemen, on behalf of Arvind Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.