"Arvind Limited Q3 FY-22 Results Conference Call"

January 27, 2022

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Moderator: Ladies and gentlemen good day and welcome to the Conference Call for analyst and investors for post results discussion for Quarter 3 financial year 2021-22 of 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 '*' then '0' on your touchtone phone. I would now like to hand the conference over to Mr. Samir Agarwal. Thank you and over to you sir.

Samir Agarwal: Thank you and good afternoon to all of you. Thanks a lot for participating in this call to discuss the financial results of Arvind Limited for the third quarter of financial year 2022. Joining me today is Mr. Jayesh Shah, he is our Group Finance Director as you all know and also Mr. Kaushal Shah, who is our Investor Relations Officer.

To get started, I'm very happy to report that during this quarter we crossed the 15% ROCE mark. We have discussed few times as to we wanted to kind of get there and we are here. So, we are really pleased about that. In this quarter we clocked the highest ever earnings for the current portfolio of Arvind Limited businesses. Similar to the second quarter the business in this quarter was characterized by a surge in volumes across all segments and also in tandem the high input prices of the raw materials. Most of our businesses secured price increases to offset the cost increases and that helped us maintain the unit operating margins. Although in percentage terms it may look a bit diluted. Overall, the revenues for this quarter, third quarter stood at Rs. 2276 cores which was 50% higher than the previous year same quarter. EBITDA stood at Rs. 236 crores which was 46% higher than the Rs. 162 crores which we reported last year in the same quarter. PBT stood at 142 crores and the net profit after tax was at 95 crores. We had indeed a very good quarter, like I said this was the highest ever in our history. So, we are very happy about that.

Talking about the segmental in a bit more detail; the textile revenues were at Rs. 1917 crores which was 57% higher than previous year. Almost 25% of this growth on top line came from the improved privatization and the remaining was a volume growth. Similar to the second quarter like we shared with you, denim again shipped out 25 million meters. It continues the momentum in terms of volumes. Woven showed a very strong growth and it shipped out 35 million meters this quarter and this was largely driven by very sharp increase in the export volumes. Garment volumes improved to 10 million pieces. Apparel demand in general continues to stay buoyant across all segments in our markets. Most global retailers and brands have reported full recovery to the pre-COVID levels. In some cases, the ones who are doing better are even reporting 5% to 10% growth than the best ever Q4 2019 numbers. Similarly, the top domestic fashion brands and retailers continue to deliver strong volumes and all of this has translated into an overall strong demand for our fabric and apparel both.

On the input cost side, pressure stays strong. Cotton prices have zoomed to a level which is historically high, both internationally as well as India. It's a combination of demand supply as well as speculation going on. The global demand for the cotton continues to stay at (+24) million bales and like we shared last time also, there has been some degree of disruption in the supply because of the weather patterns in some parts. More importantly while the quarter is there, this continuing challenge with the global shipping and supply chain it still continues to impact the local demand and supply. Other raw materials also continue to command high prices and again are partially driven by higher freight prices because some of these things are imported from China and other places and the freight costs get added. The good thing is that we have been able to pass on most of these cost increases and as a result that textile EBITDA was strong at 11.4%, average price realization for denim stood at Rs. 226 per meter and woven was at Rs. 185 per meter. The ROCE in this business, the textile business stood at nearly 23%.

Now talking about advanced materials, a bit; AMD grew by 42% compared to the Q3 of last year and it clocked the revenues of 267 crores. As I had shared in the past, AMD has three parts which is human protective apparel, industrial products and composites and all three segments of AMD saw a really good scaling up of the key accounts, launch of some high-value products and an overall good growth. EBITDA margins in AMD stood 30%. Net borrowing came down further as we had planned and guided by about Rs. 150 crores during this quarter. We closed at 1723 cores as of December end. As a reference just to recap, we had started the financial year at 1950 crores borrowing which had increased to 2141 crores during the end of first quarter and continues to come down sequentially. Looking forward in near future we expect Q4 to deliver similar top line in profit numbers as Q3. We also intend to continue our efforts to dial down the debt through the next quarter. That concludes my opening remarks and we will be very happy to answer the questions. I invite you for the same. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-answer-session. The first question is from the line of Nihal Jham from Edelweiss Stockbroking.

Nihal Jham: Three questions from my side, first one is that, have we taken all price hikes that were required? I know we are guiding for similar margins and a similar revenue strategy for Q4. So, would assume that will be the key but just if you could throw any highlight maybe something has happened post the end of the quarter till now which may still require some intervention from our side?

Jayesh Shah: So, the price increase is the cost increase rather, is a continuous phenomenon right now unfortunately. So even post the Q3 there has been, so in November-December there have been price increases of cotton and some of the other imports. We too are changing our price with our customers. So, it's a continuous process. You continue to remain lag behind for a few months. Yes, to answer the question there may be a little bit of an increase in prices of our products even in the coming quarter.

Nihal Jham: Jayesh bhai if I may just ask something related to this was that, it is very heartening to see that we are able to take such strong price hike but do we have the bandwidth to keep taking those things keep happening or this is maybe the end of the price hike they can pass on to customers and post this maybe we'll have to absorb some of the inflation?

Jayesh Shah: I mean it will be difficult because the price increase, it's an issue that is affecting all the players and not only us. To that extent if there is inflationary situation, some price increase will have to be done. Of course, these price increases are never one sided, there has been some bit of an absorption by us also. Otherwise, we would have got a significant operating leverage with this kind of volume surge which you don't see. There has been some bit of an absorption and through productivity gains, through efficiency improvements, through changing in product mix you keep adjusting and looking at customers' needs, you have to keep adjusting your contribution, your pricing, your products and then try and optimize the situation.

Nihal Jham: The second question was that in your commentary you do mention of the domestic segment being very robust. The only observation is that both for woven as well as for the denim segment, volumes are still at 75% to 80% of pre-COVID. When you say robust, you're saying how it has performed versus Q2 or are there some other parts which you were including which is giving you this outlook?

Jayesh Shah: what we are seeing the customers enquiry for the following period. In general, despite the Omicron issue unlike in the past the demand continues to remain reasonably stable. It has not collapsed the way it did in the earlier wave 2. That's the reason why we said that the demand remains strong as compared to what we had seen in the past.

Samir Agarwal: Jayesh bhai can I add to this, on the domestic demand piece? Just a comment, so what's happening is just to give you a bit more flavor. If you see there is obviously the top national brands in both denim and woven category. There are two tiers below that in terms of market, there is a super-regional or a strong regional player bracket. Then there are really small ones which are almost like unbranded local players. What we are observing is that the real small local ones are the ones which are really getting hosed. In fact, a lot of the businesses now being picked up by these regional and sub national players who are becoming much stronger. So that's the dynamic playing out. Frankly structurally that favors us because that’s the segment which endears us a lot more readily as compared to the lower peer. So that's just two things to add there.

Nihal Jham: That does give further clarity. Last question from my side on the debt part, the reduction is something that's been very significant and congratulation on that. If you could just break up if there has been any proceeds from the land sale and Jayesh bhai also for the year ahead what is our expectation from land sale and if there is any unutilized land bank which we are contemplating to monetize to reduce debt further?

Jayesh Shah: There has been over last nine months we are being able to get about 85 to 90 crores from land sale. Some of it has come in Q3 as well. However, in Q3 one of the reasons why you see a little higher reduction is that we our tax payment was much lower as compared to what you see as a book tax which is provided on 35%. But because we have been paying advanced tax and we are in the MAT region we don't pay 35% but we pay 20%. So, to that thrust us 17.5%. To that extent the tax outflow is much lower than what we have the tax provision in the books. That's another reason why you had more surplus than what is seen on the reported number. We did have some fixed assets for land sale and we'll continue to sell more. I think you could expect at least 100 to 150 crores of sale happening even in the next financial year.

Moderator: The next question is from the line of Biplab Debbarma from Antique Stockbroking.

Biplab Debbarma: First question is on your capacity utilization. It looks like you're running 100% capacity utilization on denim and woven, if my reading is correct. If that is so and if we see the revival in demand what would be our next step? I remember in the previous con-call you were mentioning that you are not very keen on adding capacity and you may outsource it. If that kind of scenario arises what will be the margin and outsourcing because there'll be some margin contraction in outsourcing?

Jayesh Shah: I think the related questions would be, how are we going to plan for growth in the coming year across various segments and what is our thought process on the CAPEX? Let me try and broaden answer so that it addresses not only your question but some of the other related issues. We believe that textile industry is seeing a tremendous growth opportunity, both as we just spoke Indian market particularly the organized retail is growing at a very fast pace and there is definitely a global shift in demand which is now real. We will also grow in select areas such as garments, advanced materials and fabrics of manmade fibers. We are in the process of putting together our CAPEX plan. Overall, it may be over 300 crores over the next 18 to 24 months. We will be spending and augmenting our woven capacity. We will be augmenting our garment capacity and we'll be augmenting our AMD capacities in different segments within AMD and whatever is part of PLI in this, which could be some of the products would be part of PLI. Some of the products will not be part of PLI because they have restricted some of the adjacent codes in the PLI scheme, so whatever fits within that we will apply under PLI and balance we will apply or do outside the PLI. So, this is our overall thought process. There will be some bit of an outsourcing, some of the intermediates we may be buying even now we do that. So that's how the focus will be both on margin and return on capital employed. With that as a barometer we will aim to continue to grow and take advantage of the tremendous opportunity and the demand surge that you see in the global and Indian market.

Samir Agarwal: Jayesh bhai if I can just add to that. There was a second part of the question around, if we outsource there may be a margin dilution.

Jayesh Shah: That's what I said that there would be some margin dilution, on outsourcing you will gain on operating leverage as well because some of the fixed costs will remain constant. Also, even though there may be a margin dilution, there may be an ROCE uptake on that. So, it's a combination of all of this, will be difficult today give you all the concrete numbers because we are in the process of budgeting. Next time when we meet, we will have much more clarity on all of these aspects but I'm directionally telling you that this is how we are looking at growth, margins, capital employed and also continue to look at or focus on reducing debt year-on-year.

Biplab Debbarma: Second question is on your AMD segment. My understanding is that AMD segment would be primarily driving the growth path and it has been growing significantly good margins. If you could provide some insight. I know you have three segments. I just want in terms of insight as in each segment how much they contribute and who are the top five type players, how big the market export market is. Because AMD is a total new area, so if you could just quickly so that we can go and research further.

Jayesh Shah: So, Samir maybe you want to take up and I will add.

Samir Agarwal: Biplab, like you said AMD is made up of three parts. To simplify it, there is what we call human protective apparel, human protection which is more little bit more than half of the AMD top line. There are two other segments which is the industrial belts and filters and then composites which are 25% each. That's kind of how the popularly it stacks up in terms of importance. Now the one thing I just want to clarify is that because the question you have asked, I have been asked in the past as well. AMD is a bundle of multiple businesses and multiple products which go to different markets. It's not like there's an AMD market like a denim market where there's a given market size. It would be hard to say that what's the market size and what’s the share of market. Having said that I think that to give you a flavor of each of these businesses. Human protection really makes a lot of different kinds of work wear and protective apparel which sometimes goes to people like firefighters and Defence personnel. Globally there are two kinds of customers which buy these products from us, either lease our brands which sell under their own brand name and they simply white label from us or there are laundries which provide apparel services and solutions to large corporates and the establishments. Again, for them also we supply as a white label unbranded product which take it as an input into their business model and then go on. This is very much an institutional B2B business and where we are is in last few years, we have established a core set of customers. Many cases these customers don't want to be named for different reasons, many of them don't want to be seen as sourcing from outside local market etc. But from our perspective the important thing is that we have very stable customer base within which they are increasingly getting comfort about quality and supply side liability. During this phase we have also cleared a whole lot of certifications because many of these products require you to undergo a fairly rigorous testing as individual process, many of them last for multiple months and multiple quarters. So that's the kind of business which human protection is. Like I said the big agenda there is to keep scaling up and we've been quite successful there. That's how it will continue for next few quarters as well. In terms of the belting and filtration products, again these are both woven as well as non-woven products coming out of our factory. Like I said they go into two broad applications, either they are coated with few different compounds and made into conveyor belt etc. or they are deployed into different kinds of filtration, there are hot-gas filtration, liquid filtration or some combination. Again, in terms of the customer base largely export-oriented there are overseas distributors and overseas converters which convert these into actual filtration products or many cases there are filtration service companies which buy these products from us. In that sense it's very similar to the human protection, so B2B business there are established accounts where they have loved our product and they have been using for last several quarters. We are in a place where we are growing that business as well. The last piece is composite which is taking our glass fiber fabric capacity which we had since 2012, we have gone downstream and there's actually a website which we have put up in last couple of quarters for arvindcomposite.com. If you click on that you'll get all the details of the different product markets. But in summary it goes into a variety of downstream applications where a composite offers an alternative material of construction to metals. It's a much better corrosion resistance and so on. Again, this also is a B2B business. We supply to large cooling towers, telecom fellows, we are making parts of metro rail. More recently we have started making some sports goods as well which gets us into the carbon fiber zone. The attempt here is to again try and move towards higher and higher value products. So, what we have done is we started with a fairly basic composite material set about 4-5 years back but another product which we used to kind of delve with in like 2015-16 we don't even produce that because we have continuously improved our facility and so far got the value chain. That's kind of the flavor of the three buckets we have and each of them competes in a different product market. Now we'll pause here and see that gives you some flavor or you have some more questions.

Biplab Debbarma: That's very comprehensive, got the idea. If I may squeeze one final question. ROCE seem to be individual like textile and AMD segment ROCE seem to be high but overall, also very good but I believe it is because of the other business segment impact of other businesses.

Jayesh Shah: It's not strictly because of the other businesses, the investment in other business is relatively smaller. However, we have a few things like we have over 100 crores of tax which we have to MAT credit that is sitting there. Also, we have about 450 to 5000 crores of land which gradually is being sold. Once this so-called other nonproductive assets are out of our books you will see an immediate jump. That's why in the earlier question of yours also mentioned that we would want to look at significantly growing not only our margin but also return on capital employed. So that is the reason why I told you that.

Moderator: We will move on to the next question from the line of Prerna Jhunjhunwala from B&K Securities.

Prerna Jhunjhunwala: I just wanted to understand your Q4 guidance on why we see similar top lines and there will be some price increases across products.

Samir Agarwal: I'm sorry Prerna I didn't get your question. Can you please repeat for me?

Prerna Jhunjhunwala: I was just trying to understand your Q4 guidance on why our revenues will remain at similar levels when you will see some price hike across products because of cost inflation. There is room for capacity utilization improvement in garments and AMD as well. Just wanted to understand why it will remain similar. It can actually increase from here in Q4.

Jayesh Shah: Apparently the Quarter 3 has been one of the exceptional quarters also for woven division and generally to do the 35 million quarter-on-quarter because of even seasonality changes, there is not something which we can plan, it can happen. But we cannot bank upon it. Generally, the sales would be around 30 to 33 million. We would aim for higher but that's what we budget right now. Similarly in denim to do 25 also is not something that we can bank on, on a quarterly basis. It can be 23-24-25. But we have to budget for something which we can definitely achieve and give that guidance. On garments, yes capacities are there and we will be growing. Also, there are different products that we sell for different seasons and the prices and the product mix also undergoes a change as every quarter. That's why also the product mix lead price changes may also happen. You may get the higher price for the same product. We may, also average may not rise as much as we otherwise would the price increase may, show that the overall average should rise. That is why the turnover maybe similar, it maybe 5% lower or higher than what it is today. But we believe that it would be in the ballpark similar range.

Prerna Jhunjhunwala: The second question is on the water business, how has been this quarter and what is the general outlook on this business now?

Jayesh Shah: The water business has been quite good. In fact, a demand pick is now very good. We have been able to win some large orders. We in the past have done a single order which is of 100 crores. We have you been doing 50-60-40 crores orders. We have just won an order which is over 100 crores. It is moving in right direction. After 2 years of COVID and where the demand or the new order booking was lower and so was the execution but now it is picking up and we see a good robust pipeline for next financial year.

Prerna Jhunjhunwala: What would be the size of this water business, this is to follow up on this?

Jayesh Shah: 220 odd crores this financial year. It has been stagnant and in fact has gone down in last year but it is now inching up to over 200 and it should be at 20%-25% or 30% growth next year.

Prerna Jhunjhunwala: My next question is on this interest cost, the interest cost has moved higher, around 9.5% if we calculate the net debt basis.

Jayesh Shah: I will explain to you, so this interest cost includes a certain portion of cost which is not relating to the debt alone. For example, we pay or we do a very large sum, between 200 and 300 crores or we factor our export and domestic receivables. We sell out our receivables and whatever is the cost we book it in interest. So, that is another cost that comes though it is not adjusted. That cost does come in the interest. Again, this quarter we have compared to last quarters, we haven't taken any credit for the intrest subventions which otherwise was available till last quarter because the scheme has yet to be announced or renewal is still to be announced. We believe if we come in next 1 month or so and if and when it comes will reverse that cost which is about 4-4.5 crores.

Participant: Which means our net interest actually is around 37 crores odd?

Jayesh Shah: 36 crores.

Moderator: The next question is from the line of Bajrang Bafna from Sunidhi Securities.

Bajrang Bafna: On the finance broadly what I am trying to understand is that, on the working capital cycle, we worked with close to 65 or 66 days for last 2 years. This year the anticipation is that since the cotton prices are rolling extraordinarily high; building that kind of inventory which is the historical trends probably will not be possible for the sector this time and the availability of cotton is pretty low. How are we going to see the working capital cycle this year and maybe some sustainable numbers going ahead purely from that side?

Jayesh Shah: Working capital cycle as we speak has remained similar to what we had seen. In fact, it has marginally improved in Q3. As you know the cotton prices are at a historical high and currently because of the reasons that my colleague Samir mentioned that there is a logistic challenge, there is an import duty on cotton in India, there is a very high demand of textiles and leading to higher consumption of cotton. So, because of this reason and a lot of money flowing into cotton from various funds because of the US interest rates; these reasons may or may not stay long and as a result we currently are hedging our cotton basis the order book that we have for sale, so that we are trying to match our sale and the purchase and not take any extra position because cotton can, like it has gone up very sharply, can also come down very sharply and you may get caught into the reverse cycle and rather we would play safe and only buy to the extent we have an order book for on the demand side. We don't see any significant change in the working capital cycle for this financial year.

Bajrang Bafna: My next question pertains to AMD segment. This particular segment is I would say the most efficient return on capital employed generator for the company because if you see the dynamics; it can generate almost 3.5X to 4X kind of asset turn and then close to 13%-14% kind of margins which is far better as compared to our fabric and maybe to some extent the garment segment also. As you rightly pointed out that you are augmenting fabric and to some extent garment and the AMD but to go from this 1000 crores kind of annual run rate of technical textiles and we are seeing government is giving lot of sops in this particular segment in terms of PLI thing. Any broader CAPEX, some big CAPEX because you are guiding these 300 crores which can give us let's say 1000 crores or maybe 1200 crores kind of top line even if we believe that it completely goes into AMD segment and you are seeing lot of more segments which are emerging on the AMD side. How we are going to get the bigger advantage given such a smaller CAPEX that we are guiding right now? If you could broadly guide us from 2 to 3 years perspective, where do you see this AMD business? Because logically it looked that Arvind is the leader in this segment and if any company then we can visualize from a technical textile perspective today in India; the Arvind comes first in our mind because of the sheer size of Arvind as on date. So how do you want us to guide us from a broader longer-term perspective in that segment?

Jayesh Shah: Mr. Bajrang I think Samir did already answered that question but let me repeat that we are looking at a growth of about (+25%) in AMD year-on-year. We are not looking at a 50% annual growth or a 75% annual growth from AMD, it's not even practical. The demand generation on the AMD side is a slow process because it's a technical product, it doesn't happen like a fashion industry. It will take its own time but whatever we do will stay and be sustainable on a long-term basis with margins continuously looking better. I think our growth plans, we have already described for all businesses put together. Each one of them in detail we will explain when our budgeting exercise is over but as of today it seems that AMD will surely grow at that level.

Bajrang Bafna: My last question is about tax rate. We are still from a reporting P&L side; we are still at far higher close to 35% kind of…?

Jayesh Shah: It will be similar percentage next year. After that it will become 25%.

Bajrang Bafna: In FY24 will come back to the normal rate of 25% from a reporting perspective.

Jayesh Shah: Yes, 25%.

Moderator: The next question is from the line of Sagar Parekh from One Up Finance.

Sagar Parekh: Just Jayesh bhai, on this 300 crores CAPEX guidance so what kind of incremental revenue and margins can that generate broadly? Can we assume like 2 to 2.5 times sales to gross block kind of number?

Jayesh Shah: Yes. It could be even more because we are investing at the last end but Sagar honestly, it's still work in progress. I am just indicating some broad top-down numbers which we need to work on and come back to you all once our board also looks at it sometime in mid of March. However, we have capacities within the company even now, even if we invested nothing there is a possibility of growing the business by 4%-5%, on top of it these investments will further help. Overall guiding 8%-10%, of course input cost related, sales may change because of the sharp up and down of the input cost and as a result the selling price. But assuming that remaining constant we have headroom to grow with 8%-10% including these investments.

Sagar Parekh: So, I am looking beyond FY23. So, FY23 will obviously see growth because of the lower base of FY22?

Jayesh Shah: I am talking about 8%-10% year-on-year and these 300 crores is not the last so-called investment. We will keep investing including in the next financial year for the next year following. That additional incremental investments we keep happening, also our outsourcing engine is working extremely well. And even now if you see, just to give you an example one of our divisions shut because of some pollution related PLIs that was done in Gujarat and then some 300 units got shut and all. Of course, it has restarted, taking trial runs and it should be up and running fully in next couple of weeks. But despite that 1.5 months of closure in Q3, the sales of that division has not stopped because it was able to completely outsource what it lost in production from outside and achieve the sales and the profit number.

Sagar Parekh: On the de-leveraging part for FY23, can we assume about 300-400 crores de-leveraging for FY23 also?

Jayesh Shah: Too early to say but our drive will be to aim at bringing down the debt to closer to 1000-1100 crores in the next 12 to 18 months. May not be 1 year but it may be 1.5 years but around that time.

Sagar Parekh: By that time, we will be probably be at debt to EBITDA of about 1x or even less than that?

Jayesh Shah: Hopefully Sagar.

Sagar Parekh: My last question is on this advanced material. So, during the current quarter on a Q-on-Q basis we saw about 10% decline on the revenue front while the margins were better off Q-on-Q. So just wanted to get some?

Samir Agarwal: Sagar, I think this business is comprised of shipments going out many cases to meet some project needs or any cases they are lumpy. I would not read too much into it because specially around December and with this being mostly export-oriented business, five containers kind of flip from December billing to January and the picture changes. So, there is no trend around that. It tells that with logistics and things like that playing out, the numbers played out at the various…

Sagar Parekh: On the margin front then assuming that we would have done 300 crores and our margins would have been better right because of the operating leverage?

Jayesh Shah: That is correct.

Samir Agarwal: Absolute number, yes correct.

Sagar Parekh: Going forward in FY23, assuming a 20%-25% top line growth; our EBITDA can be about 14% to 14.5% on the advanced material part, right? As the margins will improve from here?

Samir Agarwal: There will be slight improvement in the margins for sure but as the growth happens, there will be some increase in the fixed cost as well. So, yes there will be some growth for sure.

Jayesh Shah: But broadly, it is on the rise and it will rise 30-40 basis point plus-minus but they were not very awesome where we are targeting.

Sagar Parekh: On this other segment where we saw this EBIT loss for the current quarter as well, as you guided for better outlook on the water division. So, FY23 onwards, can we like others division will turn profitable?

Jayesh Shah: As I had explained in the last call also that all of these will wear-off by end of the year. After that we will possibly not have this because our water division will start generating surplus EBIT.

Sagar Parekh: We will be positive EBIT from a Q4 onwards itself?

Jayesh Shah: Not Q4, from QI.

Moderator: The next question is from the line of Venkat Samala from Tata Asset Management.

Venkat Samala: Just one question on how do you see the structure of the orders moving forward? Obviously in the last 12 to 18 months, especially in the fabrics what we have seen is the skew towards exports is kind of increased, right? Is that something which is structural moving forward as well?

Jayesh Shah: One of the key what do you call internal mandate to our teams has been to have a very strong relationship with customers both globally and in India and have that flexibility to move sales from domestic to export and vice versa to some extent so that depending upon the demand situation you can in a way move your sales. If you saw last year, we were impacted very badly in India in Q2 because of the Delta wave, wave 2. As a result, the demand had significantly reduced both in retail as well as in the branded segment. We kind of move part of the sales into our export market which was doing extremely well. Going forward, it could so happen that some of the markets particularly US which is so strong may soften a bit either because the money which is flowing into consumers may go down, interest may, rates may go up. The demand in the retail segment or even the logistics may improve which with today, all brands are stocking up inventory, they need not stock up. There may be a lull for a quarter in any of the period I mean next within 8-9 months, when this may happen and that is a time one could because we are present across India, Europe and US you could play in different markets and still fill up your capacity. I would not call that there is a trend towards exports but we continuously, tactically remain present and put our sales into markets where we are at an advantageous situation. So, it's not that it is a permanent change but it is a good change for now but it may reverse itself.

Venkat Samala: Just as a follow-up to that. So, say even if it reverses, would that be a possibility that the new normal could be a little higher than what it is? Or there may be a possibility that it could go back to the erstwhile levels also?

Jayesh Shah: As in you mean the export may be higher or not? That's what you are asking?

Venkat Samala: Yes. Structurally higher than what it used to be or?

Jayesh Shah: Structurally, it will be higher for a simple reason that the global, the shift in demand because of the China-Plus strategy is real and we should take advantage of it and we are taking advantage of it. So, to answer your question yes, it will always be more than what it used to be.

Samir Agarwal: One quick comment on that. We work with a set of customers and it's a B2B business where we are working with a lot of accounts over multiple years. There are few priced customers like that in India as well and we will continue to serve that. The rest of the explanations Jayesh bhai provided that it depending on how the relative sort of demand plays out between all these accounts, the actual number will change.

Venkat Samala: Now when I look at how you are kind of operating across different segments; so, fabrics are running close to full capacity utilization levels, AMD also is doing well. With respect to garment and when I look at how the peers are doing versus how you are doing. Your commentary appears to be very strong but at the same time you are not really running at optimal capacity utilization levels. So, what exactly, I mean where exactly are you lagging? I know you are doing well but whatever we are hearing from others that there is still room for improvement, right?

Jayesh Shah: Let me clarify which I did earlier also that for us garment business is a part of our vertical plan and not standalone business. We use garment as a service to get our stickiness with our customers and provide that extra service. So, that's our starting point and when we don't necessarily aim for a growth in garment but we aim for overall growth in sales with a given customer. That's our starting point of our garment activities which have always been a vertical thinking rather than a horizontal thinking of a garment as a business. This is one difference compared to anyone else. Secondly, our garments volume are growing. They are growing at a reasonably good pace as well. Two things are happening and one thing which is happening is that our Ethiopia is come under some political disturbance and as a result there is a little bit of a challenge there and as a result some of the capacities are under-utilized today. The second thing which is happening is that some of our garment capacities because of surge in demand in our advanced material division where they also sell garments, which are the protective garment that they sell; we had to divert some of our capacity from our existing textile plants to advanced material and that resulted into a dip in capacity. We don't report that because they are all small, relatively small things as far as overall numbers are concerned. But (a) our thrust on verticalization and garment continues, our margins are improving quarter-on-quarter and we will continue to grow that business.

Venkat Samala: One last question from my side is obviously you did mention about your medium-term aspiration and utilization of around 300 crores CAPEX but slightly if I just look forward 2-3-4 years; what is your aspiration to grow your top line across different segments and by different segments maybe you could talk about fabrics, garments and AMD segment?

Jayesh Shah: On a reasonably medium to long-term, our fabric business would grow at between 5% and 7%. Garment could grow at around 15% to 20% and AMD could grow at about 25% to 30%.

Venkat Samala: So then would you be able to kind of get to low double-digit kind of growth sustainably?

Jayesh Shah: Close to that number is what we are aiming at least for the next few years.

Venkat Samala: Because once you at least have that idea as to what needs to be done based on that you will also allocate your CAPEX, so that is what…?

Jayesh Shah: We have in fact that part of our job, that's a part of our job.

Moderator: The next question is from the line of Deepesh Agarwal from UTI Mutual Fund.

Deepesh Agarwal: My question is related to your land bank. I do appreciate your efforts on the monetization of land but when I look your FY21 financials almost your free hold land book value was roughly 1200 crores. This is almost like a 40%-45% of your company's net worth. Can you help us understand out of this 1200 crores of land bank; how much of the land is in excess of your requirement?

Jayesh Shah: I told you earlier that the total land now left you are looking at '21. We are going to sell about, already done about 100 crores now. Our total required piece of land that we have identified, there are two types of land; one is the land which is part of our complexes which we are currently not using but not planning to sell either. All of that being considered as part of our requirement because it may be required if not now maybe 5 years from today. Behind that we are intending to sell the value in the book as we speak today is close to 450 crores and we will be declaring that land as an investment land, surplus in the March '22 balance sheet.

Deepesh Agarwal: Any sense, what would be the realizable market value of this 450 crores land bank?

Jayesh Shah: May be around 650-700 crores.

Deepesh Agarwal: This we will monetize over next 3-4 years?

Jayesh Shah: That's correct.

Deepesh Agarwal: Second question is just a bookkeeping question. Typically, how many days of cotton inventory you keep?

Jayesh Shah: There is no such I would say fixed number that we have in mind because commodity, agri commodity, it keeps changing based on availability, monsoon, all of those things. We don't generally decide on number of days. One thing which we do that to the extent we sell; we try and cover our cotton and yarn so that we don't have too much negative or rents on the already orders that we have booked. We try and reduce that margin gain or loss on that. Other than that, based on certain requirements which are very typical for some of our customers which may be organic cotton, which may be very super fine and specialty cotton that we may be buying from east parts of the world. There we buy for 6-8 months but those are very smaller, restricted quantity. So, overall, today if you were to ask me what is my cotton inventory, it is about 60 days. It may change, I can't tell you that it will be 60 at end of the month so.

Deepesh Agarwal: Is it fair to say, you mentioned there is a lead-lag in passing on the cost increase on the fabric or the denim side. This cotton inventory which you keep, which at the current moment is 60 days is off setting some of the lead-lags?

Jayesh Shah: That is correct.

Deepesh Agarwal: It would be at least half of this lead-lag being covered here?

Jayesh Shah: I will not put that number because a lot of we are also buying yarn where we don't have cotton. More than 50% of our input is in form of yarn which we buy where we don't have cotton. We don't hold inventory for that material. I am saying there is no such fixed thing about how much percentage would it cover or something like that. It's a very daily dynamic thing, it will not be possible for me to quantify exactly the contribution based on inventory levels because I may have bought inventory at different points in time also.

Moderator: The next question is from the line of Rishabh Jain from DSP Mutual Fund.

Rishabh Jain: I have just one question on the garmenting division which you have explained, why it is little lower than other segments. But if we look at pre-pandemic scenario, most of the fabric division has grown significantly higher on a quarterly basis. In garmenting it seems the recovery is, if we exclude the Ethiopia as well as maybe some AMD diversion; the recovery still looks significantly lower when we see the quarterly numbers let's say eight-ten quarters back?

Jayesh Shah: The way to look at it Rishabh would be that in relation to what capacity we have whether we are very close to what we could do. It is a headroom of 5%-7%-10% and not 30% for example.

Rishabh Jain: From the existing capacity what we have, we can reach maybe 2000 crores odd?

Jayesh Shah: As we speak, we are also expanding.

Rishabh Jain: Existing whatever order is there you can do around 2000 crores odd.

Jayesh Shah: Yes, and we are expanding.

Moderator: The next question is from the line of Biplab Debbarma from Antique Stock Broking.

Biplab Debbarma: One is on the PLI. PLI, if my understanding is correct the last date or application is January 31st? Am I correct?

Jayesh Shah: That is correct.

Biplab Debbarma: By this time, you might have whatever, you might have decided what if we have decided to invest under PLI that might have been decided. So, you would be announcing what you have planning to do under PLI?

Jayesh Shah: Let the application go on 31st which is early announced. Honestly, you should and that is true for all textile companies and they could look at investments to grow in whether it is through PLI or otherwise based on what businesses they are in. For example, one of the largest businesses that we are in is woven shirts and woven fabrics and denim and denim jeans. None of them are in PLI for example, right? So, our trust areas would be to do some of the manmade fiber, some of the technical textiles where we are there. But overall, we consider with or without PLI what we should be doing and whatever force in PLI would we apply under PLI. So, and the balance will go in the other government schemes which are like top schemes, which are coming up again, as of April they are going to revise that entire scheme. We will be investing in garments or in some of the fabric capacities through the top sale and not through PLI.

Biplab Debbarma: How much would have been investment and goal has been in PLI?

Jayesh Shah: We will as soon as we apply, we will let you know.

Biplab Debbarma: Second question is on this land parcel. I just wanted little bit of flavor on the land parcel that we intend to sell. A few questions on that is that whether it is within the city limits, in large chunk of two-three land parcels or a small-small land parcel in many because I was just trying to understand how liquid are this land parcel and how you are planning to monetize? You want to sell or as you have been doing JDA kind of thing?

Jayesh Shah: No, we are selling; not doing JDA and we will sell. They are located in two or three areas but not necessarily everything in that area is contiguous but each one of the parcels that we have are fairly large.

Biplab Debbarma: And within the city limits?

Jayesh Shah: There are some in city limits but largely around city.

Moderator: Thank you. Ladies and gentlemen, due to paucity of time we take that as the last question for today. I would now like to hand the conference over to Mr. Samir for closing comments. Over to you sir.

Samir Agarwal: Sure. Thank you. Thanks a lot everybody for joining us and presenting your questions. We will look forward to meeting you one quarter down. Thank you. Bye.

Moderator: On behalf of Arvind Limited we conclude today's conference. Thank you all for joining, you may now disconnect your lines.