"Arvind Limited Q4 FY 2019 - FY 2020 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to the Conference call for analysts and investors for post result discussion of Q4 Financial Year 2019- 2020 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. Please note that this conference is being recorded. I now hand the conference over to Mr. Samir Agarwal. Thank you, and over to you, sir.

Samir Agarwal: Thank you very much. Good afternoon and thank you all for participating in this Quarter 4 and FY 2020 Earnings Call of Arvind Limited. Joining me today, is Mr. Jayesh Shah – our group CFO and Executive Director as well as Mr. Ashish Kumar who is the CEO of our Garmenting Advanced Material as well as Water Businesses. During this call and through my opening remarks, we will cover results of Q4 and FY 2020 and also share the impact of COVID 19.

In terms of results, until February 2020, all are businesses were tracking as per the plan and the guidance that we have shared with you in the past.

The Textile Business grew by 10% and Advanced Material Business grew by 20%. COVID impact during the second half of March resulted in 42% drop in revenues for the month as dispatches and invoicing completely stopped post 22nd March 2020.

To share specific financial results, our full year revenue was higher by 3% compared to the previous year and stood at Rs. 7369 crore. This was primarily driven by growth in garmenting and AMD businesses. EBITDA for the year stood at Rs. 692 crore and Profit after Tax was at Rs. 146 crore. The lower than expected profit was a result of revenue loss in March while cost did not reduce during the period.

In terms of segment specific commentary – Textile revenues were up 5% and stood at Rs. 6205 crore. This was driven by increase in Garment volumes to 42 million pieces as compared to the 34 million pieces in the previous year. Fabric volumes saw a very small decline from 188 million meters in the previous year to 181 million meters. EBITDA margins and Textiles saw a minor decline from 11.3% to 10.7%. Advanced Materials Business grew by 13% despite moving out on the last two weeks of March shipment and closed the year at Rs. 713 crore top-line. EBITDA margins for this business also improved quite well from 10.4% last year to 12.9% this year.

On the whole, we at Arvind Garments estimate a loss of around Rs. 250 crore on the top-line and about Rs. 75 crore on the EBITDA as a result of this COVID 19 related disruptions for the previous year. In addition, there are exceptional losses on account of Foreign Exchange, bad debts impairment, etc. to the tune of Rs. 36 crore which has impacted our growth in this year, which otherwise you know, for these disruptions, a one-time impact was pretty well on track to deliver as planned. On the good side, our working capital ton have really improved very well. We improved from 3.9 tons in the last year of FY19 to 5.1 tons this year, mostly coming out of a fairly tight operating decision which we have imposed lockdown on all divisions in form of much sharper collections and inventory management. Also, despite the setback in March, our net debt reduced by Rs. 248 crore in that year, so what stood at Rs. 2619 crore at end of March 2019, now we closed March 2020 at Rs. 2371 crore. So there was a reduction of Rs. 248 crore which was quite good and quite PAT line at what we have sell. Now talking about CORONA, as you are all aware that the World continuously waffle with the impact of COVID 19, from where we stand at Arvind, most of our global brand customers did report almost 50% plus drop in sales during April which as we have been monitoring quite closely are now recovering quite well. In fact, many of our stronger brands which are doing well globally in the market place are reporting a recovery through the tune of 60 to 80% in the recent week of June. A big box retailers like Walmart and Cosco who also are important customers have also reported good revivals thus far.

Domestic market of course continues to suffer from two issues one is softer demands and the customers as they avoid discretionary shopping but there is also another problem here which is the disruption of supply in distribution networks which are crippled by lack of liquidity. On the positive side we are seeing a fairly good demand for our mid-way products and essentials. In fact, one more thing is happening is that many of the brands which we have very strongly China sensitive in terms of sourcing have started very active engagement with us in terms of specific orders and you know ideas. Last but not the least the demand for our advanced material product AMD division continues to be quite robust through the entire crisis.

While the evolution of COVID-19 and its future impact on the world is still evolving, we have taken several prudent measures that position us quite well. We have made fundamental changes in our cost structures which we believe will sail us past and give us advantage when the capacity utilization improves. Given the current demand trends, we expect to be generating positive cash accruals as early as Q2 and our equity position is quite comfortable. So, that is all in terms of opening remarks from myself. Now I invite you to ask questions, if any there.

Moderator: Thank you**.** Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Prerna Jhunjhunwala from B&K Securities. Please go ahead.

Prerna Jhunjhunwala: Thank you. Just wanted to understand the impact of lower cotton prices on your performance going forward, how much of inventory would you have and how will it impact?

Jayesh Shah: So, as far as inventory is concerned, as far as raw materials are concerned, we did not have much raw material inventory as of March end. In fact in Denim our inventory was only 15 days.

Prerna Jhunjhunwala: Okay**,** so the whole benefit of new cotton prices would be available to the company in the event of cotton production

Jayesh Shah: Yes, so in fact all factors of production, be it cotton price, be it other dyes or chemicals, which are currently soft on pricing, as well as currency, which is recently, Rupee is reasonably weak as compared to what it was last year. All, sectors which you have passed in quarter 2, quarter 1 of course we had excess, we could not .., we have accounted for that loss in Q4.

Prerna Jhunjhunwala: Okay**,** sir second question would be on your operations, largely you said that many of the customers are recovering to a very large extent, could you please help us in understanding how was your three months April, May & June and how you have worked on reducing your cost structure, any material number that you could share that your cost would have come down to on a sustainable basis or on a temporary basis?

Jayesh Shah: Yes sure, so there are, you asked me two questions, one is about customers and how is April, May and June. So, as you know April was a complete lockdown, so was most part of May so we started, we couldn't really work because of the availability of several things including transportation, etc. It is really in the month of June that we have been able to kind of start production across all our verticals. We are currently in the month of June we will be at about close to about 45-50% of utilization in different plants and basis that we should be in close to Rs. 300 crore sales in June. At that level we have been able to achieve we should be above the breakeven at EBITDA level, so we should be making some contribution to our beyond EBITDA at operating levels. When you talk about costs we have been able to, as my colleague just mentioned, there are fundamental changes that we have made, and used this as a kind of opportunity to look at every aspect of cost and really tighten them, I think we believe that on a sustainable basis we should be able to reduce our fixed cost by at least 15% from where it was last year and that should stay with us even after we in a way come out of this and go closer to the full utilization of our capacity.

Prerna Jhunjhunwala: Okay**,** sir last question on 'Other Category'; that has been a sharp decline in our numbers this quarter, could you please help us understanding what is gone wrong there.

Jayesh Shah: Prerna, it has a base effect. Last year in the 'Other Category' where the 'Water Business' which is still relatively a small business for us, had very large implementations during Quarter 4 and as a result, in addition the whole of the year that business had very large orders that we were exporting. This year, all of those are not there, so in terms of and of course, the last month was also a washed out. It is a bit of a project-based business that is booked in a quarter or in a period where they get implemented. Of course, it is a small business, we would like to keep it that way and not really dwell on it till it attains the proper size for us to talk about it.

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

Maulik Patel: Good afternoon, Jayesh Bhai.

Jayesh Shah: Good afternoon.

Maulik Patel: Couple of things; within the textile where do you see the next month traction right now and whether as you mentioned that export is picking up faster than the domestic. In case the domestic does not pickup, particularly in woven segment, will we shift more of our volume to the export?

Jayesh Shah: In a way yes, we would be doing it. As of today, I mean we can only talk very short term because this is a very unusual situation, so you know predicting a year is a complicated thing but in the short terms, all the categories that we are in, be it denims, be it wovens, be it knitted fabrics, again garment out of all of those are at around the 50% mark in terms of utilization and we are expecting them to become more like closer to 60% in July, in which period in this quarter as my colleague said we should be making full cash accruals, so covering interests as well as contributing more towards even the depreciation, I mean cover most part of the depreciation, if not full. So, it is across the board that we are able to operate in all categories. As far as domestic market is concerned, obviously we are still under the impact of the lockdown. I think even now as you know, though markets have opened, it is really, you know the consumption or spending or the malls or the shops are not really operational in many parts of the world including big cities like Delhi, Bombay. So here I think we are delayed by a few months in terms of restarting the consumptions, so we have to wait for; 1) our estimate is that it may take one more quarter before India opens up for consumption and the demand starts. Now obviously because a) currency is currently favorable, b) though there is a contraction globally and my colleague can elaborate on that, Ashish Kumar, who is handling some of our businesses can elaborate but though there is a contraction in demands across the board, with our partners who are our strategic customers that we are dealing with, actually are consolidating their bites and as a result we tend to, you know we are currently having reasonable amount of orders from export market though I do not think they are buying as much as they were buying last year. Ashish, maybe you want to add.

Ashish Kumar: Yes, thank you Jayesh. So I think just to add to what Jayesh bhai was saying, I mean our customers who are strategic to us in nature have also been rethinking on their strategies, so while there is a possible demand contraction at their side because we work with them and we are kind of reorienting ourselves to their requirements by earning a thought partner to them and working with them on possibly how we align ourselves with the digital supply chain which they are looking at. We have seen quite a steady demand from these customers and now that in the garment side the future projections have come, and they are in line with the expectations of what we had initially planned. So, the strategic customers remain healthy in their market space and we think we will have our desired share with these customers.

Maulik Patel: Sir, is this large share, I mean you are gaining market share from the China?

Ashish Kumar: So, I think there are couple of reasons. You know, it is too early to kind of define while customers have definitely started looking at what they can move out of China. It is initial days but lot of discussions have already been in place as Samir told in the opening comments where we are having but they will, I mean finally moving a supply chain is at least six to nine months' timeframe, so we will come with, the discussions are already on with them.

Moderator: Thank you. The next question is from the line of Amit Doshi from Care PMS. Please go ahead.

Amit Doshi: Sir, your opening remarks as well as the press release contains the comment that due to the COVID the revenue is approximately Rs. 250 crore of loss and with the corresponding EBITDA is Rs. 75 crore. So, with the annual EBITDA margins of around 10%, can you just clarify this, I could not get that comment?

Jayesh Shah: Yes, so you know in the month of March, we actually had full overheads that we incurred. So, the impact of sales will have to be seen on the contribution and not necessarily at the EBITDA margins level. Our contribution is generally about 30%, after that we deduct the fixed overheads to come down on 10% EBITDA margins. So, 20% is our fixed overhead on the total but when you loose sales, you loose amount on sales minus the valuables cost and the contribution, is there entire contribution you lose. So once you bring down the cost further fixed cost, your impact would have ben much lower had we been able to cut the cost even in March, which we could not because what happened in March were two things; 1) our production was only for 20 out of 31 days, 2) all the dispatches which we did from the beginning of the month, around from the second week of the month, all were either at the Bangladesh borders or at thoughts and none of those got dispatched. So even for 10 days we ended up moving to Rs. 50 crore of revenue.

Amit Doshi: And my second question is related to the originally you know when the demerger or the restructuring process was done, the original plan was to improve significantly the return ratios, the ROCs to be précised and you know lot of work to be outsourced and looms to be outsourced, etc. So, what is the status of that and at what stage we are and what further more needs to be done on that, if you can.

Jayesh Shah: Yes sure, so one of the things that we have, as we spoke earlier also that one of the things which we did during this period of last three months was to further rationalize what we make inside ourselves what we can outsource and a lot of it what has already done and further we increased significantly in last three months. The return ratios will improve when we go back to utilization levels that we were originally doing in the last eleven months of the last year. Plus, the overhead reduction that we have seen or which we hope will continue, is going to improve profitability and as a result the return on capital employee. It is a clear plan that we are working on, it just got little bit, I think we are one year now there is a setback because of COVID but we are on course.

Amit Doshi: So, we would be around say 50% or 60% stage of whatever is the targeted outsource activity?

Jayesh Shah: No, we will be at 75% already, however what I am saying is that it will not come out or you will not see it because our overall revenue will not be at the full level.

Amit Doshi: Okay and Sir, with reference to this, lot of discussion about the PPE production and I think this new fabric that you have launched for that COVID thing. Can you give some guidance as to what is the scale ability, what are the sustainable margins or what are the realizations, what is the sustainable demand in this segment?

Jayesh Shah: Sure to put a, I mean markets are large, how it will pan out is yet to be seen but my colleague can explain to you what all we are doing. Ashish, will you be able to take up this question?

Ashish Kumar: Yes I will take it. I think what we have done is that in the time when everything got into a lockdown there was a requirement from the Government of India and we came forward to re-purpose a couple of our lines into making PPE and now this seems to be or this will be a steady state of business also. We have also kind of put in facilities for doing masks and in this whole period of lockdown we worked around on options which could be very relevant in coming times and that is where this tie-up with that HeiQ where we can produce fabrics and then garments which are going to be virus resistant. So, it is a steady stream of business, only thing is that as of now there are a lot of restrictions which the Government has put and if you would be reading in the newspaper, you know a lot of companies started working on the PPE. So, we think that in about two to three months we will have a steady line of sight when the exports open because our quality systems and our product integrity will differentiate from the rest of us and we could build a regular practice in the coming times on the healthcare side.

Amit Doshi: Anything on what portion it could be of our company's contribution and whether this realization would be sufficient enough considering our AMD division, the kind of margin that it generates, would it be in the similar line or ….?

Ashish Kumar: You know these are early times, initially just to give you, this is definitely a product where we have a slightly better margins than what the textile products; the conventional or the legacy textile products which we offer. Same is the case with the HeiQ. The whole thing will depend upon how much we are able to sell into the market. As of now, the margins are definitely looking better than our conventional legacy textile products.

Moderator: Thank you. We will move on to the next question, that is from the line of Resham Jain from DSP Investment Managers. Please go ahead.

Resham Jain: Yes, hi thank you for the opportunity. Sir just on the garment business, you mentioned 40%, 50% utilization as a company but Garment because it is a predominantly an export business, is the utilization much better in the month of June in the Garment business?

Jayesh Shah: You know the Garment utilization for June is the function of a) the orders and b) also the supply chain management because a lot of things that you need for garment including getting various streams from various parts of the world. So, all of those things are getting organised and I think so that is why we were at about 50%, 55% of utilisation in the month of June. I think it will go up in the coming month as my colleague just mentioned that we have got some orders already for the Quarter 2 and the visibility is good. So we believe that it will steadily go up, it is a function of various supply side constraints also that including availability of in certain pockets manpower, everything has to be kind of worked around to make sure that we can deliver things on time because once you take an order the customers will want material to be delivered on time and those are other constraints that we work through time.

Resham Jain: Okay but the visibility for at least one or two months of order book is there, so July – August do you feel that it will be closer to 65%, 70%?

Jayesh Shah: Ashish can you respond to this question?

Ashish Kumar: Yes, what is happening is that while on an aggregate we are at, let us say 55%, there are certain product categories which we have seen that they have a larger traction where we have a reasonable demand coming our way and you know this whole trend of work from home where people are obviously, so what we see is the categories of essentials which is basically the underwear segment, the denims somehow because that is also grouped as a core category and so to say, the PPE and the other healthcare, that is something which is going very good, the shirts we see a little bit of softening and that is why we have in the last three months also re-calibrated our capacities.

Resham Jain: You mean to say that in the shirt factory alternatively you can make something else.

Ashish Kumar: So we have, that is what we have done. So I mean we said that, see for making PPEs we did not go out and set up new facility we basically re-purposed a couple of our lines in some of our factories to put in there. So the entire capacity of PPE was from the garmenting capacity which was existing.

Resham Jain: Okay understood. Sir my second question is, you mentioned that there are a good amount of inquires from the customers who are looking India from a diversification perspective, is there any specific details on the customers or what phase we are in, any more thoughts around that if you can give?

Ashish Kumar: Resham, I think the way we work if you look at, like most of the companies we are at 80-20 where 80% of our volume is coming with just 20% of our customers and without naming them I think almost all of them are in discussions on different aspects, somebody is wanting to have an understanding on the garmenting which in turns means the fabric side, some brands are looking at moving their fabric supply chain out of China and moving back into India, especially the cotton side because that is where they see that, that is the first movement and then possibly they can look at vertical. So, our top 6 customers all of them have had some very meaningful discussions and you will see in the coming times as to what numbers we clock with them.

Resham Jain: Okay and sir my last question is again on garmenting, if we just look at last 6 months on the currency side specifically, the Bangladesh currency versus India, India has depreciated more than Bangladeshi currency Taka and we have this cotton and other things also as an advantage, so is there specific product ranges where our pricing is becoming slightly better and because of that we may have more traction at least in the short term because of this?

Ashish Kumar: So, yes I think, so I will give you a customer lens on this, customers have different vendor rating and country rating, so on certain product categories, where we are an end to end vertical, we are at an index of roughly about 96%, whereas Bangladesh is 98%, so we already are at an advantage, what we can offer to our customers. So, just to give things in perspective, there are certain product categories where we are already competitive.

Resham Jain: But no incremental order wins are happening because of pricing advantage, because of the custom movements?

Jayesh Shah: So, I do not think it is trading like a trend, I think garmenting is a very involved activity as my colleague said it takes 6 months to develop a customer and a product on a range, it will not change by a daily fluctuation of currency.

Resham Jain: And sir last question on Advance Material, we have seen a very good growth this year and a significant improvement in margins as well and I think we mentioned that Advance Material has not seen material impact because of the current situation, so any guidance on that going ahead for FY21 on the Advance Material division?

Jayesh Shah: We are not giving guidelines for 21, for a simple reason that there are supply side challenges that we have to meet with, including in Quarter 1 though there was no impact on the orders, there has been an impact on the supply because the factories were shutdown, even supply of material from overseas, raw materials, everything was under all kinds of challenges, so currently we are not guiding anyone but what my colleague was trying to mention that we have not seen any kind of challenge on getting orders, we have to see how it pans out.

Moderator: Thank you. Ladies and gentlemen that was the last question, I now hand the conference over to Mr. Samir Agarwal for his closing comments.

Samir Agarwal: Yes, thank you very much we will meet again in one quarter. Thank you.

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