



“Arvind Limited Analyst and Investors for Post-Results
Discussion for Quarter 2 of Financial Year 2019-20
Conference Call”

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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 2 of Financial Year 2019-20 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 ‘*’ and then ‘0’ on your touchtone phone. I now hand the conference over to Mr. Samir Agrawal. Thank you and over to you, sir.

Samir Agrawal: Thank you and good afternoon to all of you for participating in this Q2 FY20 Earnings Call of Arvind Limited. Joining me today is Mr. Jayesh Shah who is our Executive Director and the Group Chief Financial Officer. Our results in this quarter were very much in line with the plan which we had laid out at the beginning of the year and we saw a clear improvement in our earnings as compared to the first quarter.

The market conditions continue to be challenging as apparel brands and retailers are trying different methods to make the best possible during this week consumer sentiment. Credit crunch continues to adversely impact our business which we do through the trade channels. Sharing few specifics of the different businesses textile grew by 11% this quarter in terms of revenue of textiles the fabric component saw single digit growth while garment revenues were up 19% primarily driven by larger volumes as we scale up this part of our business and we have talked about it in the past as well.

Garment volumes excluding essentials rose from about 8.6 million units in the Q2 of last year to 10.3 million pieces in this year’s Q2. So, that was a fairly steep jump. EBITDA margin for textiles business stood at 10.8% as compared to 9.7% in the Q1 so there was sequential improvement. Textile EBITDA for the Q2 of previous year stood at 12.4% so just a comparison for previous year which created a strong base product Q2 of current year. So, while compared to the last year same quarter we had slight decline in the margin sequentially compared to Q1 we have an improvement. Revenues from advance materials which you also called AMD grew by 26% for this quarter and stood at Rs. 183 crores. As a quick recap this business consists of human protection, advance composite and other industrial products all these businesses clocked the healthy growth.

EBITDA margin for the advance materials also improved as these businesses started to mature to scale up and aggregate for the first half of this financial year stood at 12.5%. We are quite confident that this business is on track to deliver Rs. 800 crore of top line revenues for this full year. Our net debt at the end of the quarter was Rs. 2694 crores as compared to 3024 crores as of 30th June. So, we were able to dial down the debt significantly as we had shared with you earlier in terms of our intent. Our guidance for the year stands slightly improved as compared to our earlier projections for the P&L. We expect the overall revenues to grow by 9% to 10% during this full financial year. Despite market challenges we are starting to see signs of revival

in our Denim volumes and expect to clearly better the numbers compared to H2 of last year. In terms of margins we expect EBITDA in H2 to improve on account of operating leverage and help close this year at broadly similar margin levels as FY2018-19.

We continue to maintain our targets for the overall debt reduction from March 2019 based by about Rs. 300 crores during the full year. Now I invite you to ask any questions you may have. Thank you.

Moderator: Thank you very much. Ladies and Gentlemen, 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: My first question was I see that we obviously improved our guidance on the revenue side, so just wanted to understand that which are the primary segments which we believe are leading to this improvement in guidance?

Jayesh Shah: Also increase the broader percentage point or 1.5%, 2% top line increase primarily coming from textile segment especially the Denim one.

Nihal Jham: Sir, just on the Denim segment wanted to understand how the situation currently is and secondly on the segment I think in the commentary you have mentioned that the margins were a bit challenging just putting that in perspective that cotton prices have fallen in a Denim segment if I look at Q-on-Q so just wanted to know why margins have contracted and also how the Denim segment is shaping up your comments on that?

Jayesh Shah: The commentary was vis-à-vis the margins that we saw in Q2 of last year. As you know after the festive season of last Diwali the business had been in general in India has been very weak and we saw a Denim volume sharply declining over whole of H2 last year and also not so strong in H1 or Q1 of this year and as we have stated in the past we have been working to about making certain changes in the entire Denim business structure where we are wanting to reduce our dependence on Indian market where there is a significant credit issue where the money is not rotating in the timeframe that you know the credit cycle we are generally used to. So, we have been focusing on export market although you may not have seen any increase in exports during Quarter 2, but you will see that as we go forward. What we have been also doing is that as we are vacating some of the Indian market we are also tweaking our product mix to reduce our margin expectation from export so that we can first fill up the volume and then take the advantage of the operating leverage that you get. So, you will see an improved Denim volumes for us in the H2 because of these changes that we have done. It may reduce the overall sales price a little bit also little bit on margins in percentage terms for Denim business, but it will increase absolute profit that you will make.

Nihal Jham: So Jayeshbhai, that Indian market as you say still remains under severe stress and going forward, we want to look at exports only to mainly drive our volume growth if I understood correct?

Jayesh Shah: I would not say exports only I would say we would like to focus on India a few segments like brands and retailers in India is our focus area where the credit cycle issue is not very bad. The trade channel where we get stuck into getting our money on time is where we are reducing our focus, I am not saying we are vacating and partially moving our volumes into exports markets. Also as we move forward over next I would say not necessarily next three, two quarters, but as over the next half in the coming years As we expand our garments good amount of volumes will also move through garments into exports and domestic market where we would be again not depending so much on the trade channel.

Nihal Jham: Jayesh bhai, on the garment side we have seen you had a good pickup over the next few quarters and the new capacities have also commissioned so just wanted to understand that this increased volume is going to our existing customers as a part of the verticalization strategy that we have been?

Jayesh Shah: We have been knowing that the garment capacity is coming into operation. We have been seeding a several of our customers from our older facilities of course since last 6 to 12 months and we have developed some kind of rhythm with many of them and now we are with expanded capacities as our efficiencies improve, we would supply to them. So, all the requirements in terms of supply chain in terms of understanding their take packs what exactly they need logistics everything has been done. So, it will help us to quickly ramp up the volume as we can expand our or improve our plant utilization.

Samir Agrawal: Just to add up on that see we nearly have been working with fair number of big brands, supplying textiles or garments to third party. So, many of them are signing up with us as more closer partnership of a tier 1 nature and of course there are some brands which earlier were never interested in buying pure fabrics. So, they are some of our new opportunity for us who have started to kind to talk to us now. So, it is a fairly good opening of market lines for us.

Nihal Jham: And what is the approximate amount of this preoperative losses like in the garmenting segment?

Jayesh Shah: So, they have reduced in this period, but it would be like about 15 to 20 crores.

Nihal Jham: Just last question Jayesh bhai, from my side you know we saw this news coming in the middle of the quarter where I think we have had a rating downgrade. First of all, wanted to understand why that is happened considering that debt will be stable and by the end of the quarter we see that debt has been paid I am sure agency would have been aware of that, so wanted your comments?

Jayesh Shah: So, as you may read the commentary that our rationale for rating the whole of it so you would have found that they saw that we are likely to improve our revenue and profits for the year. We almost saw that we are likely to reduce the debt. They also commented on improving or contracting our gross assets and everything. However, couple of reasons as they mentioned in their analysis. One was that over last I would say four quarters there has been a consistent decline in the operating margin and Denim volumes by the time they did the analysis have not in a sense bounced back in reality. So, whilst we are hopeful and we are the Quarter 2 also shows that there has been some kind of an improvement and the second reason they mentioned was that we are of course susceptible to cotton and foreign exchange, which is not new honestly, but before the second reason they mentioned. I think we are on course on a few things. One we are very clear that we even as I had mentioned last time also even at a cost of losing some sales we would not want to risk any expansion into our current assets or account receivable base or increase our credit cycle in the market and we are very forecasted you had noticed in the balance sheet in H1 balance sheet that we published along with the results our gross assets a current assets I am talking gross current assets has contracted by 400 crores and that is a sizable change which has happened despite the fact that we have an 11% top line growth in Q2. The reason being that we have as I had mentioned changed a lot of the way we buy raw materials, the way we keep the inventories, the way we manage our WIP everything has undergone a change and we are hoping that it will some more of this should happen over next six months.

Moderator: Thank you. The next question is from the line of Sagar Parekh from Deep Finance. Please go ahead.

Sagar Parekh: So, On this garmenting volume guidance for this year FY20 how much would that be?

Jayesh Shah: So, as we said that I think we will continue to grow with a similar clip for next quarters or H2 that is around 15%, 20%. So, last year we were at around close to 31 or there about it should be closer to 39 million to 40 million.

Samir Agrawal: 40 million will close, but the run rate will be higher.

Sagar Parekh: For this basically for last two quarters would we have got any currency benefit, or will it flow through H2?

Jayesh Shah: No, I think our currency is a constant I think rollover hedging which happens both on our dollar inflows as well as the raw material. Currently, we are buying a lot of raw materials also which are imported including cotton, but we constantly hedge over a period of time, some benefits keep coming every quarter. Including in Q2 it so happened that we were better than the market.

Sagar Parekh: So, was there any FOREX gain for Q2 versus last year?

- Jayesh Shah:** We do not take FOREX gain like that because it is a very integral dollar. So, what happens is that unlike a bank or something here we have imports, we have exports, we have domestic sales, the dollar pricing gets change basis several other factors. So, we do not really look at it FOREX gains compared to last year. What we look at is that did we benefit basis the market rates that are prevailing or not really and we were slightly better than the market.
- Sagar Parekh:** So, cotton prices right now are at around 39,000 per candy so that benefit would flow through right in H2?
- Jayesh Shah:** Yes, though answer in a very linear is yes. It would benefit. How much it will flow into margins is to be seen because as my colleague mentioned in the initial periods that the markets are really tough right now in India and to best of our understanding the Diwali has not been as good as the brands and retailers would have liked. So, from that point of view we do not know how the stock position of our customers would be post that. So, we want to play cautious so we would want to forecast and improvement in the margin purely on account of cotton.
- Sagar Parekh:** And lastly on this CAPEX how much have we spent in H1 and what is the guidance for this?
- Jayesh Shah:** I think we are left with about 60 crores, 70 crores CAPEX for the year a balance is all done. So, as you see from the balance sheet you will find that we have contracted gross current assets, we have incurred on CAPEX, we have maintained more or less the debts which was there in the opening so it had spiked in June for the reasons that we had mentioned then and we have paid out the dividend so that was H1. So, H2 we are saying no significant CAPEX, slightly improved margins and no dividends payouts left. So, H2 should be a cash positive.
- Sagar Parekh:** So, that is how the 300 crore debt reduction will come.
- Jayesh Shah:** Yes.
- Sagar Parekh:** So, H1 till now we have spent I think 265 crores right that is what the cash flow statement is stating?
- Jayesh Shah:** Yeah there would be some adjustments, but in cash flow terms which has been about 180 crores so some capitalization would have happened of the past, some advances would have been brought into assets. So, in a cash flow terms it has been like 180.
- Sagar Parekh:** And on your in house consumption what would be that percentage from fabrics to garments?
- Jayesh Shah:** Very small right now still in a different products groups it is different, but in Denim it would be like 10% and it is gradually as every month goes up a little bit as we ramp up our capacities.
- Sagar Parekh:** So, as we scale up garments in two years, we go to 60 million pieces this percentage of 10% would possibly go up?

- Jayesh Shah:** 15% to 18% should be the number.
- Sagar Parekh:** So, that would possibly also help us in right now what we are facing in terms of volume in Denim so this will help us right this incremental 10%?
- Jayesh Shah:** I would say the case for being in garment industry for a fabric maker as we have been talking about is that A it helps us to be more strategic to the customers because we will sell them what they are selling rather than sell them something which they have to convert into what they are selling so that makes us strategic and as a result the variation in the sales on a monthly basis will significantly reduce.
- Sagar Parekh:** And lastly on this Denim volumes for this year any kind of guidance that you would like to give?
- Jayesh Shah:** Premature, it is looking better than what it was though markets are worse than what they were primarily because the way we have tweaked our profit expectation and the way we have kind of focus more on exports markets. I think you will see a quarter-on-quarter for next two quarters which were incidentally bad for Denim and that is the reason why our profits were down last year. I think we are currently reasonably booked on capacity utilization, but we will have to still wait and see, but it will be better than what it was last year.
- Moderator:** Thank you. The next question is from the line of Maulik Patel from Equirus Securities. Please go ahead.
- Maulik Patel:** Jayesh on the debt what you mentioned that we have reduction of around 300 crore so far compared to the beginning of the year. Now as you said that for the full year.
- Jayesh Shah:** It is not beginning of the year beginning of the quarter. So, Maulik if you remember if you mentioned last time this question had come when we said that we are going to reduce the debt as to how come because you added to the debt in Q1. The reason was that as we had mentioned that we had done some opportunistic buying at that point in time which we let short-term debt go up at that point in time so that has come off and we are almost back to where we were in the beginning of the year and now for next 6 months is the operating cash flows more or less being free from any commitments this should be able to hit our targets of reducing debt by 300 crores if not more.
- Maulik Patel:** So, this 300 crore debt reduction from the FY19 right?
- Jayesh Shah:** That is correct.
- Maulik Patel:** Okay so March '19 to March '20?

- Jayesh Shah:** That is correct. So, we have to do 300 crore of reduction from now onwards to the end of the year more or less.
- Maulik Patel:** So, we will be finishing around 2400 kind of on a level?
- Jayesh Shah:** Yes.
- Maulik Patel:** The second question is on the margin side and in earlier question you answered that the sequential improvement in the margin is partly because of the improved Denim business?
- Jayesh Shah:** Yes.
- Maulik Patel:** Is the garment margin has been not been improving or it has been little bit improved, but not to the expected line so far?
- Jayesh Shah:** So, garment no it is not expectation. So, the garment margins are wherever there is an efficiency of the old plants where it is it is same 10%, 12% between 10 and 12 where you are month-on-month changing the products or taking lot of people for training and converting their training into actual production that is a work in progress and that is a it can vary by small amount, but it is not that the margin and that margin per se on the whole business will be in fraction of the percentage.
- Maulik Patel:** The last question is I think one of the numbers you mentioned I think someone mentioned that this quarter the volume of the garment was 10.6 million pieces?
- Jayesh Shah:** 10.3.
- Maulik Patel:** What was the corresponding for the Q1 and Q2 of the last year?
- Jayesh Shah:** Yeah I will get the number Maulik let us go on with more questions.
- Moderator:** Thank you. The next question is from the line of Resham Jain from BNP Mutual Fund. Please go ahead.
- Resham Jain:** Sir, just two questions one is on the CAPEX side as you mentioned second half of this year we hardly have any CAPEX for FY21 for the next year?
- Jayesh Shah:** We will have a very small amount of CAPEX left.
- Resham Jain:** What will be the amount like gross?
- Jayesh Shah:** Okay you are saying what is the amount that we will be spending in the next half?

- Resham Jain:** In the next year FY21/
- Jayesh Shah:** So, what we have discussed even in the last our call, Resham, was that we would like to first take a pause for practically next 8 to 9 months next year 8 to 9 months to get the capacity of garment almost utilized to 80%m 90% before we start with a next CAPEX which would mean that there could be a 6, 8 months of lull of the growth, but given the market conditions we want to be go a little cautious. So, we are currently putting our CAPEX for the next year to be not more than 200, 225 crores.
- Resham Jain:** And this will be primarily into garments is it?
- Jayesh Shah:** So, there are a few things that we are looking at it some amount of it would be garments. We are also looking at expanding some of the capacities in our advance material division which is our technical textiles where we are seeing good traction that is another area that we want to invest some amount of money. Also, there are certain special finishes that we are working on and dyeing technologies we are working on which is where we want to put money. However, this is a very broad CAPEX plan at this point in time of spending money over next 12 months after 6 months. This will get fine tune as we go forward, but nothing significantly in terms of capacity addition in fabrics or garments.
- Resham Jain:** And also, sir on the garmenting business this year the run rate looks like around 1700, 1800 crores maybe slightly higher, what is the kind of revenue which we can do at optimal level?
- Jayesh Shah:** So, it will be like a 2,400 to 2,600 crores if we do not add anything now.
- Resham Jain:** And you feel that like fourth quarter next year the run rate could be like closer to that mark?
- Jayesh Shah:** We should be there yes that is the plan and that is the reason why as I said earlier that we want to first try and reach their goal post before putting more investment.
- Resham Jain:** And just one question related to that is that in terms of margin profile because Denim, Bhuvan's Suits we have different garmenting mix, what kind of margins we can see in this business like?
- Jayesh Shah:** Next year again since it will be a ramp up here it will be like of course there is also an element of uncertainty Resham as you know about the government they are not becoming very clear about the government tax refund scheme, but if I assume that it will not change from where it is today. There is this next year at exit level it could be about 10, but we maybe ending up between 8.5 to 9 for the year.
- Moderator:** Thank you. That was the last question. I now hand the conference over to Mr. Samir Agrawal for closing comments.

Samir Agrawal: Thank you very much for joining the call and Wish You All Happy Diwali.

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