"Arvind Limited Q2 Earnings Conference Call"

October 28, 2024

MANAGEMENT: **MR. PUNIT LALBHAI -- VICE CHAIRMAN, ARVIND LIMITED**
MR. JAYESH SHAH -- BOARD DIRECTOR AND GROUP CHIEF FINANCIAL OFFICER, ARVIND LIMITED
MR. SUSHEEL KAUL -- MANAGING DIRECTOR AND PRESIDENT (TEXTILE BUSINESS), ARVIND LIMITED
MR. NIGAM SHAH – CHIEF FINANCIAL OFFICER, ARVIND LIMITED
MR. SATYA PRAKASH MISHRA – HEAD (INVESTOR RELATIONS), ARVIND LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to the Arvind Limited Q2 FY '25 Earnings Conference Call.

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 now hand the conference over to Mr. Satya Prakash Mishra. Thank you, and over to you, sir.

Satya Prakash Mishra: Thank you. Good afternoon, everyone, and thank you for participating in today's call to discuss the Financial Results for the 2nd Quarter and half year of '2024-'25 for Arvind Limited.

With me today is Mr. Punit Lalbhai – the Vice Chairman; Mr. Jayesh Shah – Director in the Board and Group CFO; Mr. Susheel Kaul – our Managing Director and President of Textile Business; and the Chief Financial Officer of Arvind Limited – Mr. Nigam Shah.

The Financial Results and related Presentations were uploaded to our website. I hope you had enough time to go through it. I am happy to report that we are back on a growth path again after a slow start in quarter 1. We have been able to make up some of the ground that we lost in quarter 1, which is positive. For the first time in last 3 years or so, all segments of our business have reported positive trends in volume, realization, revenue and EBITDA together, which indicates towards the progress of our twin strategy of One Arvind and verticalization.

We continue to work in a very challenging macro environment, where active conflicts in various parts of the globe creates wobbles in supply chain, and some prediction towards a pessimistic economic outlook adds to the pressure. However, there have been green shoots in areas like revival of demand in domestic front, aided by festivities of Quarter 3 and spring of 2025. Our industry-leading sustainability credential with differentiated product offering continues to attract more and more marquee names to our customer portfolio. We are very confident that this trend will help consolidate our position in Textile business and drive growth for the future.

Now coming to the Results for the Quarter 2 of FY '25. As I said above, all key segments of our business have reported positive volume growth and a stable realization, which resulted in an overall revenue for the quarter to register a 14% growth and stood at Rs. 2,188 crores. This is the highest quarterly revenue in the past 9 quarters. EBITDA for the same period, adjusting for a spillover cost of mainly air freight of Rs. 11 crores, mirrors a similar growth in revenue. Reported EBITDA stood at Rs. 221 crores. Similarly, adjusted EBITDA margin reflects a last year margin of around 10.6% on a Y-o-Y basis. Apart from higher logistics costs that I've stated above, some of the fixed costs like annual salaries hike have been given an impact in the Quarter 2 that has increased some of our fixed costs.

Profit before tax during the quarter gone by is in line with the revenue growth that I've spoken about and increased by 20% to reach Rs. 135 crores. However, some impact on deferred tax, which we will speak about, to the tune of Rs.29 crores has eroded the profit after tax. There is no cash flow impact of this transaction. And if we adjust both the exceptional items, the profit after tax during the quarter gone by would have stood at Rs. 97 crores. ROCE during the period on a run rate basis improved by 150 basis points to reach 13.9%.

Coming to the segment-wise performance during the quarter:

Textile division revenue stood at Rs. 1,633 crores, with an EBITDA of Rs. 168 crores, translating into an EBITDA margin of 10.3%. This is one of the better performances of Textile division in a long time and is duly backed by volume growth and a good mix of products and customers, with stable realization across individual product baskets.

In Quarter 2 of FY '25, Advanced Material division reported a revenue of Rs. 388 crores with an EBITDA of Rs. 60 crores, which is a growth of nearly 10% and 7%, respectively. We have been able to maintain our margin, which stood at 15.3%. It is important to inform that some of the growth in AMD is skewed towards Quarter 3 and Quarter 4, so we are confident of achieving our guided run rate of 20% growth soon.

Coming to our capital management plan:

As guided earlier, this was to be a year of high growth CAPEX to augment our Garmenting and AMD capacity. After a slow start in quarter 1, we have regained momentum and spent about Rs. 167 crores in the first half of the year, which is nearly 40% of the annual plan.

We are confident that we will hit the desired allocation by end of this year.

With this, I conclude my opening remarks. I now hand it over to Mr. Punit Lalbhai to give his comments about the results and the market.

Punit Lalbhai: Good afternoon, everyone. As usual, it's a pleasure to be here with all of you today and answer your questions. But before we get to questions, just let me give you my flavor on the quarter gone by. I think Satya has done a great and comprehensive job about describing what has happened. I echo his sentiments in that we are glad that we are back to business as usual. And the difficult first quarter is behind us, and now we can focus on the future.

I think in a difficult overall environment, we achieved 9 million-plus Garments. I think that's a creditable performance. I think despite all the supply chain disruptions created due to the labor strike in the first quarter, the team was able to normalize delivery and satisfy customers. And despite incurring significant air freight, have still been able to deliver a great performance on the Textiles side. And I think AMD continues to have a strong outlook going forward. If we think of H2, both businesses, Textiles and AMD, are looking to have good demand, especially Textiles, which is probably looking at all-time high sort of rates of demand.

I think another important thing that we are on the cusp of doing is signing an agreement that will take our renewable energy to 80%. Our sustainability commitment is very dear and important to us. And we are market leaders or perceived as market leaders on that front, and we want to continue to maintain this position. It's very valuable to our customers, both in AMD and Textiles, and therefore, we'll continue to invest here. And this new investment will take our renewable energy to 80%, and it will also help improve our margins going forward.

I think that's pretty much a flavor of where we are. I would love to open up the floor for questions. Thank you.

Moderator: Thank you very much. we will now begin the question-and-answer session. Our first question comes from Aabhash Poddar from Aionios Alpha Investment Management. Please go ahead.

Aabhash Poddar: So, just wanted to understand a bit more on the Advanced Material Divisions or AMD. So, yes, you highlighted the second half is going to be stronger. But I would have thought this quarter should have also done well, given that there was some spillover from the previous quarter. And typically, we look in the past also, we've delivered 20%-plus volume growth in this category. So, if you could just talk a bit about the push and the pulls that have had transpired in this quarter? And then entirely for the full year, are you still confident that you will see 15%-plus value growth in the segment? So, that's the first question.

Punit Lalbhai: So, I'll answer the second part first. I think, yes, I am personally quite confident that we'll see that sort of value growth. I think if you look at the volume growth even in Q2, it is quite good. We had close to 15% volume growth in most of our segments. I think there was also a significant amount of price erosion because of raw material prices collapsing in several important raw material categories. So, in a sense, we were swimming against the tide on the realization front. However, I think even factoring all of these things, the demand looks good enough to where we can make up. I think if you look at Quarter 2, human protection is where perhaps, compared to our initial estimates, we would be lower in terms of what we achieved. And that's mainly a result of one of our large customers having unexpectedly low demand. However, we have compensated for that in quarters going forward. So, I think if you look quarter-on-quarter, you will have certain ups and downs. But on few quarters together basis, I think achieving the kind of growth that we've always been guiding should not be a problem. And I don't see that as a problem going forward.

Aabhash Poddar: And just second piece is just more of a clarification on the garment bit. So, obviously, you talked about that second half is going to be better for the garments, given the way the typical seasonality sort of plays out. So, just clarifying, we are still expecting that we should be able to do 40 million sort of a overall volume run rate for the entire year for garments piece, right?

Punit Lalbhai: I think we'll be slightly short of that, but not significantly. I think this quarter also, we'll be 9 million-plus, slightly higher than Quarter 2. And Quarter 4 is when we will breach the 10 million mark is how I am seeing things.

Moderator: The next question comes from Vikram Suryavanshi from PhillipCapital. Please go ahead.

Vikram Suryavanshi: So, I wanted to understand our expansion plan opportunities, particularly in line with what the Gujarat government has now announced the Textile Policy. So, will it help us to further consider the new expansion within the state or will we continue to look at MP, Odisha or other states for expansion plan?

Punit Lalbhai: So, I think Gujarat has announced a very good policy. I think it will be advantageous for us because Gujarat, being our home base, there is some base load investment that is always going to be planned here because of the concentration of management capability here. And so, to that extent, this will help. I think Madhya Pradesh, Odisha is also something that we will consider, especially from a labor cluster availability perspective, especially from the perspective of Garments. But I think from the perspective of AMD, I think Gujarat, with the new policy, is looking extremely attractive. Of course, we have to get into the fine print of the policy. It's quite recently announced, and we'll be actively sort of evaluating opportunities to invest in Gujarat.

Vikram Suryavanshi: And post Bangladesh issue, how is our interaction with the customers in terms of shifting to India and in terms of opportunity landscape? Are we seeing material change or it will take some time? How is your reading with the customer?

Punit Lalbhai: So, short term, no change. No change for a number of reasons. The first reason is Bangladesh did an extremely good job in getting back on track, at least, large parts of Bangladesh did a good job in getting back on track. And two, because short term, there is really no capacity available in India for them to shift overnight. So, I think the Indian garment industry has to bat on the front foot to create all the capacities before customers can think beyond their normal plan to shift to India. I think India is definitely on their sourcing metrics more now than ever before, and they want to source more and more from India. But if they have to accelerate beyond their existing plans, we also have to accelerate in terms of capacity creation, which will happen, I suppose.

And I think medium term, events like this will always create risk management teams like all the customers' end to focus on sort of risk mitigating that sourcing structure. As I've always been saying, Vietnam and Bangladesh were already approaching saturation as too many eggs in one basket for many customers. I think from that perspective, this unrest in Bangladesh only reinforces the need to have more sourcing locations. And India ticks a lot of boxes amongst the future candidates for further diversification. So, I think the opportunity was always interesting and remains interesting even after the unrest.

Moderator: The next question comes from Prerna Jhunjhunwala from Elara Capital. Please go ahead.

Prerna Jhunjhunwala: So, I had a question on Bangladesh. During the quarter, there was disruption in Bangladesh. Despite that, we've been able to achieve very strong volumes on export front in denim, as well as in the woven fabrics. Could you just help us understand what went right for us, whether these volumes that we did in denim are sustainable? Or it was some kind of pent-up push that we did during the Quarter 2 which came in from Q1. I mean just trying to understand what happened during the quarter for the volumes.

Susheel Kaul: See, most of the business in the Bangladesh was supported by the brands itself. So, while there used to be challenges from the banks to get involved, that brands will come forward and give the guarantees. So, what Punit bhai said is very right. That is the reason how Bangladesh swiftly came back because it was also the requirement for the brands to gear up on the capacities because they needed the capacities as they had retail shops. Otherwise, it would be an issue. So, since the brands supported all the banks and all the demand portion, the demand remained undisturbed for us.

Punit Lalbhai: Well, perhaps a couple of weeks of demand was impacted. So, to that extent, it would have been slightly better. But as Susheel bhai rightly mentioned, not significantly so. And I think when we look at denim, Quarter 3 is always the low season for denim. So, we should compare quarter 1, 2 and 4 to 1, 2 and 4 and 3 to 3. So, 3 is a low season. So, we do expect a slight dip in denim volumes, which is going to be more than made up by growth in woven volumes. So, it's the best quarter for woven, it's the worst quarter for denim, Quarter 3 going forward.

Prerna Jhunjhunwala: Do we plan any capacity expansions in Denim, given that we have reached 90% utilization this quarter? And the outlook for the business continues to remain strong.

Punit Lalbhai: So, I think we're going to expand denim as a category through the verticalization route by adding more garment capacity. I think this business lends itself much better to verticality. More and more of our customers want a full package, and our realizations and control over the supply chain also increased with verticality. We don't want to remain very highly dependent on fabric sales to Bangladesh. So, we will grow, but we will grow through garment expansion. So, no fabric capacity additions are planned in denim.

Prerna Jhunjhunwala: The next question is on CAPEX. You've spent around 40% of the CAPEX for the year. Can you just give some clarity on where have we spent? Where can we see capacity additions during the year? And where it has already happened?

Punit Lalbhai: So, we have spent broadly along the lines that we were planning to, 1/3, 1/3, 1/3. 1/3 going towards AMD, 1/3 going towards garments and 1/3 going towards everything else, including fabric differentiation and automation, maintenance, things of that nature.

Prerna Jhunjhunwala: So, is it percolating into capacity expansion in this quarter or third quarter, fourth quarter is what I wanted to understand.

Susheel Kaul: It will give some capacity expansions in woven because there's transit times involved in any CAPEX. Once you start doing any CAPEX, it has around 6 to 9 months of total, right from the building to the execution time. So, it will have a transit time, but it will start growing from Q4. Late Q4, it will start growing.

Punit Lalbhai: To clarify, we are expanding our wovens footprint because it also serves AMD. So, to that extent, that investment is also an AMD-specific investment, where the wovens capacity has increased. So, that our substrates for our human protection business in AMD, we can grow our capacity there. So, that capacity will be coming onstream towards the mid of Q4. So, a little bit, we will see a fillip in Q4, but this will hold us in good stead for next year, mostly.

I think some of the investments that were made in garmenting are already paying dividends. So, those will also kick in fully for Q4. That's how Q4 volume is higher. And also, a lot of those investments are there to help us improve our margins and to make our people dependency better. In a highly uncertain labor environment, a lot of CAPEX was targeted towards automation. So, it will give us higher volume, it will also give us better costs. So, those are the investments that will kick in, in Q4.

Prerna Jhunjhunwala: And one last question on bookkeeping. We've seen depreciation cost declining on a Q-on-Q basis. Is it sustainable and the reason for the same?

Jayesh Shah: So, some of the assets, so particularly the Ethiopia assets, got written off. And that is the reason why depreciation fell. In fact, since we are investing and accelerating the investments towards the second half, you will see an increase in the depreciation charge, and it may go back to where we were earlier.

Moderator: The next question comes from Surya Narayan from Sunidhi Securities. Please go ahead.

Surya Narayan Nayak: Congratulations for the good set of numbers. So, the first question is that, as you said, the woven is related to the Human protection area of the AMD. So, my question is that, are we going to increase the capacity beyond 125 million meters, what we have initially set?

Punit Lalbhai: You can go ahead Susheel bhai and answer this question.

Susheel Kaul: In the woven, we'll be around 135 million to 140 million, it will depend on the product mix. But we will touch that level of the capacities now. It is the combination of AMD and wovens.

Surya Narayan Nayak: Okay. Because you were saying from Q4 onwards, the traction will be visible. So, that would be available for FY '26, I guess?

Susheel Kaul: Yes. It will mostly come from the next year, yes.

Surya Narayan Nayak: Yes. And sir, another point is that in the garment facility, the ultimate aim was to achieve around 60 million pieces. So, that will be achievable in maybe next year. So, this year will be continued somewhere around 40 million pieces?

Punit Lalbhai: So, I think broadly correct. I think we will add more than 10 million pieces next year and exit at a run rate that is approaching 60 million for the year after.

Surya Narayan Nayak: And sir, regarding the AMD area, what I am seeing now is that the composite has given a very good comeback, industrial as well. So, I mean, it is heartening to see. But now the human protection is still lagging because you were doing fantastically well last year. So, any reason for that?

Punit Lalbhai: Yes. As I mentioned, one of the major customers, the orders that were expected didn't come in because of their own market performance. And so in a very short period of time, it is not possible to backfill those unexpected changes in demand. And so, it was a soft quarter from a human protection perspective. But composite sort of did well, and so did industrials, which, last year, was a little bit under pressure. But that said, I think, going forward, we have good demand even in human protection. And so, we should be back on track in the second half of the year.

Surya Narayan Nayak: So, can we have a run rate of around 10% to 12% minimum?

Punit Lalbhai: Yes, I think that should be possible. And we are already at that run rate. So, it should be possible to continue and do better than that, in fact.

Surya Narayan Nayak: And industrial part, sir, is there any railway component coming in?

Punit Lalbhai: No. So, the railway component falls under the composite section, where we weave glass fabric and then use several types of molding technologies to make railway parts, all kinds, driver cabin, toilet, interiors, window panels, door panels, all sorts of composite parts.

Surya Narayan Nayak: So, out of Rs. 1,060 million, how much is related to the railways, particularly revenue?

Punit Lalbhai: So, currently, the railway revenue is quite small because it's a new division. About 10% of the overall composite volume would be the railway. It's not more than that currently. But that's a segment that we expect will develop and grow better.

Surya Narayan Nayak: And regarding defense clothing, we were actually expecting some major orders. So, any update on that, sir?

Punit Lalbhai: So, we are doing a good amount of defense. So, defense is embedded in the human protection numbers. And there, we are participating in several product categories for the Indian Army, Navy, and we have also, on and off, doing with Air Force. Defense is a very important part and will become even a more important part of our product portfolio going forward.

Surya Narayan Nayak: So, minor debt has come into the long-term side. So, is it temporary? And our exit rate will be what we were last year?

Satya Prakash Mishra: Yes. So, this debt is temporary, which we have borrowed at the time of Q1, there's industrial unrest. So, I think we have already started repaying. So, at the end of year, we are expecting the term loan remains same, I think around Rs. 400 level crores.

Surya Narayan Nayak: And taxation will be remaining the same?

Nigam Shah: No. So, in terms of taxation, right now, there is a onetime impact due to deferred tax. And due to, I think, the last change came in the Finance Act in the month of July, so this is a onetime impact. I think going forward, the average tax rate will be coming down.

Surya Narayan Nayak: So, I mean, let's say, if you discard that element, what would be the normalized rate of taxation?

Nigam Shah: So, it will be around 25%. So, it will be normalized, which is around 25%.

Moderator: The next question comes from Vikas Jain, an individual investor. Please go ahead.

Vikas Jain: Sir, my first question is with respect to the textile margins overall, right? So, if we just look at the broader performance across segments, we have done really very well with them in terms of volumes across denims, across your wovens, as well as our garments. However, our margins have been broadly at close to around 10%, 10.5% odd levels. So, what exactly will play going ahead, most likely in second half, which will improve or even take the margin levels back to that 11%, 11.5% and even beyond that?

Punit Lalbhai: So, we have a lot of work to do on margin expansion. And I think it's more than a quarter-on-quarter goal, it's a few quarters' goals, where we are investing in automation. We are investing in better processes. We are investing in newer technology. So, all of this put together, as I have spoken earlier also about, I think 200 basis points is something that we can target over a year, 1.5 years, a couple of years. That's the kind of target that we are taking. Margin expansion is always a higher-effort, quarter in, quarter out, discipline-type execution job. And we are all on it. We recognize that there is an opportunity to improve, and we will do that. And if we are able to unlock that, then our return on capital employed will jump further to very interesting numbers.

Vikas Jain: But sir, just to be a bit more precise, let's say, talk about the Garmenting segment, right? So, 9.2 million, 9.3 million pieces is the run rate right now. So, what I am trying to understand is, is it like there's enough room for us to improve the product mix on the product mix side so that our garmenting margins improve, and hence, our overall textile margins go up?

Punit Lalbhai: Margin is a function of 2 things. One is product mix and the second is efficiency. So, our efficiency needs to go up and our product mix needs to improve, and we are working on both. For example, our mix, our margin expansion for that one product category will, from quarter 1 of this year to quarter 1 of next year, where we already have visibility, will grow by almost 30%. So, that kind of margin expansion is happening in one of the product categories where we were first restricted to commodity-type orders. Now we have made investments in things like garment dyeing, in things like seamless garments, in fleece, and in washing, in printing, in embroidery. So, all of these types of value addition will increase the margin.

So, that effort also has been invested in. And continuously, the effort is to invest in better automation, less people dependency, deskilling the operations so that our of 50%, 55% efficiencies can go to 65% and 70%. Both these things put together, we'll see margin expansion. And I think the largest scope of improvement is there in garments. We've been working on building up volumes. I think now parallelly, we've started a process of improving the quality and improving the efficiency of orders.

Vikas Jain: Because, sir, the reason why I asked is like while the cotton price as well as our product mix did support the realization front. But now when the volumes are up, and we are doing some very strong set of volumes, but then the realizations have been, on a year-on-year basis, if you have been toned down against growth profile, let's talk about year-on-year growth for garment, that has been relatively on the lower side. So, that's what I was just trying to understand, like can product mix compensate for that?

Punit Lalbhai: It can.

Vikas Jain: Sir, second question on the AMD front. In the press release, you did mention that one of the mass customers, and you also mentioned, did see some challenges. So, like what is the situation as on date and as it stands normalized? Or can we expect some more normalization of pain in 3Q onwards?

Punit Lalbhai: So, mass transportation business is quite small in terms of the overall business. And it's a project business. So, there will be some quarters where projects will be low, some quarters when we are firing on all cylinders. The business perhaps that you are referring to is the human protection. The growth in human protection is slightly slower than it has been in the past.

And what we would expect from our guidance, that, I had already explained is because of that a couple of customers seeing unexpected lower demand. We haven't lost any business to competition, or we haven't lost the customer. It is just that the market conditions for them are not what was expected. And so we have to now compensate with other customers. And that effort has gone successfully, and we should be able to be back on track with demand in Q3 and Q4.

Vikas Jain: And sir, one last. While you did allude to a lot of factors, but we have mentioned online that from the 13.9% ROCE that we are right now in 2Q, we target to move to around 20%. So, just trying to understand what are the major areas where we will see the improvement and that will drive the ROCEs to 20%?

Punit Lalbhai: So, if the overall margins increased by 200 basis points, we are almost likely to be very close to being there.

Vikas Jain: And this, you're talking about the Textile segment, right?

Punit Lalbhai: Overall, I think.

Moderator: Next question comes from Bimal Sampath, who's an individual investor. Please go ahead.

Bimal Sampath: First of all, congratulations, Punit bhai. You took a very bold call on expansion of garments when your capacity utilization was less than 50%, and many people had questions about it. So, great foresight for that. Now on garmenting only, what I understand, that even in south, they have received a lot of orders. Some big groups in the South, they have received a lot of garmenting orders. And they are saying that in the next 2 years, the volumes will be double. So, how do we stand? And the second thing, you have talked about this investment in renewable energy. Can you throw some more light on that?

Punit Lalbhai: Sure. So, I think as far as garmenting goes, currently, anybody who is a credible garment player, who has capacities, will be full because the demand scenario is pretty good. And India is a preferred location, where people are wanting to diversify their sourcing metrics, too. So, that explains why everybody has good visibility and good order book. As far as growing double, I mean, I don't know whether doubling in a year is a great idea or possible at our scale.

Bimal Sampath: I am talking in 2 years.

Punit Lalbhai: Yes. So, we are thinking of increasing 40% or 50% in 2 years because garmenting is a very execution-heavy business, and we don't want to go over aggressive and then disappoint both investors and customers by faltering on the execution. So, I think this is a good and aggressive plan that we have been guiding towards to try and reach 60 million garments by 2027. That was the original plan, and I think we should be able to achieve it.

As far as renewable energy goes, last year, we signed a power purchase agreement in the group captive mode using wind and solar which took our renewable energy component close to 50%. Now we are signing another such agreement after the amendment of the Gujarat policy. It has removed the cap, there used to be a 50% cap. That cap has now been removed. So, we are now going to the maximum possible extent of renewable energy, and we should be upwards of 80% renewable energy after we sign the next PPA. Of course, it will take some time to reach there because the execution and all will happen. It will take about a year for the realization of energy to come.

Bimal Sampath: Yes. So, second half '26, we will be there.

Punit Lalbhai: So, it will happen in beginning '27 is more likely.

Moderator: The next question is from Varun Gajaria from Omkara Capital. Please go ahead.

Varun Gajaria: So, I just wanted to understand, we are looking at 10% to 12% growth in FY '25, right?

Punit Lalbhai: Overall, for the company, yes, it's looking like that.

Varun Gajaria: So, if you could tell us, what will be the key drivers of this kind of growth? Because it seems, in the first half, we've grown around 6%, 6.5%.

Punit Lalbhai: Yes. So, I think quarter 1 has to be ignored because of the strike. We had a labor strike and a significant erosion of top revenue because of it. I think if you look at now the run rate Quarter 2 grew at 14%. And that kind of trajectory is looking likely in Q3 and Q4. That should then bring even full year number to double digits.

Varun Gajaria: Sir, so how is our order book looking like? And what is the kind of execution that we've done in the first half?

Punit Lalbhai: So, order book is good. quarter 1 was a very tough quarter because of the strike. As you know, Quarter 2, in my opinion, the company has bounced back well. And Quarter 3 and Quarter 4 are looking good from a demand perspective. We have to ensure that our execution is on point.

Varun Gajaria: Would you like to put a number to what percentage of order book has been executed in the first 2 quarters?

Punit Lalbhai: We generally don't guide about future order book, percentages and all of that. That granularity, we don't normally get into. But it's very good, as good as it can be. Let's put it that way.

Varun Gajaria: So, sir, right now, how is the export market looking for garments?

Punit Lalbhai: Extremely good. For us, garment is almost a 90%-plus export business, and it's looking good. Our capacities are at full, and we are in expansion. So, it's looking good. We have high visibility.

Varun Gajaria: And from hereon, will there any scope for expansion in realization?

Punit Lalbhai: I did not understand your question.

Varun Gajaria: I am just saying, from hereon, will there be any scope for expansion in our realization?

Jayesh Shah: So, our realization depends upon the product mix. So, if you saw, this quarter, in fact, we had a higher share of mix and that resulted in a lowering of the ASP. So, I think going or measuring the performance or the margins of the Textile business, realization would not be a right metric. I think the way we should see is purely the EBITDA margin. And as the product mix and the efficiencies improve, we see our margins, going forward, improving further.

Varun Gajaria: So, largely FY '25 growth - should be driven by volumes, I believe?

Punit Lalbhai: Volume as well as product mix. AMD it can become a larger component of the overall business, which should also drive that growth.

Moderator: The next question comes from Akshay Kothari from JHP. Please go ahead.

Akshay Kothari: Sir, just wanted to know or update, currently, our AMD maximum, around 75% of revenue will be from U.S.?

Punit Lalbhai: So, U.S. is a large component. So, I think that figure sounds about right.

Akshay Kothari: So, considering, say, if everyone is anticipating that if, at all, Trump comes to power, he has been talking a lot about tariffs and tariff base. So, would we be impacted by it?

Punit Lalbhai: As of now, we don't know of any plans by the potential Trump administration, if it's coming, to put tariffs specifically on India. I think what they've been talking about is mostly focused on China. But I think it's crystal ball gazing to think about these things at this point in time. I think we need to all wait for the elections to be done. And then it will take a while for the dust to settle, and then some of these policy initiatives will happen. So, we'll be watching it carefully, and we'll adapt. In general, I think India is well positioned to, with the relationship to the U.S., irrespective of which government comes in. So, I think we should all bank on that to ensure that the future is good. And if there are certain challenges, we'll figure out how to circumvent them as and when those challenges are realized.

Akshay Kothari: So, in terms of market positioning, U.S. and Europe will be the largest market for technical textiles?

Punit Lalbhai: Currently, yes. China is also quite a large market. And hopefully, somewhere in the not-too-distant future, India should also become a very large and attractive market.

Akshay Kothari: And around only 1 quarter back, everyone was talking about FTA, and it seems that it has been backtracked. So, what are you hearing about FTA with U.K.?

Punit Lalbhai: So, I think our information is that things are very close to being closed. I think what happened is both governments sort of changed at the time when the discussions had reached the peak. So, I guess, once the other priorities are sort of well attended to, I think this will be picked up at some point. And we are hoping that in the not-too-distant future, we could do something with the U.K., at least.

Moderator: The next follow-up question is from Surya Narayan from Sunidhi Securities. Please go ahead.

Surya Narayan Nayak: Sir, looking at the cotton season near term, so for the next year, how do you see the cotton behaving, and especially when the MSP has been hiked by 7%? So, how the cotton situation is going to be there? And whether the rise in the raw material prices, especially cotton, we'll be able to want to pass on to the end consumer?

Punit Lalbhai: So, India is in a very unique position in that because of the 10% duty that has been imposed, it's not behaving according to the global indices. So, the global indices have dropped and then risen somewhat, but still much lower than where they were, whereas India has remained constant. I think the crop area is slightly lower than previous years. But Also, demand is very poor for yarn. Indian yarn is now not at parity at the price at which cotton is available. So, broadly, we are seeing a bearish situation of prices remaining where they are or going down slightly. That's the current view.

Of course, this is a very dynamic thing, and it keeps changing from week to week and month to month. So, this is a space we, like always, will watch carefully and take appropriate decisions. Like last time, when we saw prices hitting their seasonal lows, we went along with cotton. So, those kind of calls we keep taking on a periodic basis. So, right now, we feel the situation is bearish, and we're not taking any long calls.

Surya Narayan Nayak: because we do a lot of outsourcing of yarns. So, in that case, due to the Bangladesh situation extending, so will we see that the kind of lull in the yarn realization will be helping us going forward?

Punit Lalbhai: So, I think Bangladesh has very little to do with the overall yarn situation. I think it's more price and slowdown in China, plus Indian prices being unattractive because of high raw material cost compared to the rest of the world. I think these factors are more playing a role in yarn pricing. However, the market very quickly adjusts to the new normal of pricing. So, any move in commodities, either up or down, there is a small lag. But then after that lag, things adjust to the new normal. So, I think any gains or losses as a result of those kind of movements are temporary in nature. And over a long period of time, they average out. So, I wouldn't worry too much about that.

Surya Narayan Nayak: Sir, on the garmenting side, on the policy front, so I mean, my understanding from different industry leaders is that it is a tough area, toughest area, I would say, in the value chain. So, in that case, is the industry waiting for some government policies, which is not materializing.

Punit Lalbhai: Government policies are very good. I mean, it's nothing to do with government policy. I think it's a lot to do with productivity, the focus of our entrepreneurs to invest downstream rather than upstream. I think industry has to now rise to the occasion. And I think we need to reinvent how garmenting is done in India. I think we have an opportunity to be leaders rather than followers in terms of how modernized, system-driven and automated the garmenting setup is. So, there are examples all over the world that have shown that it need not be this complex labor management exercise. So, we are also developing our own models to ensure that the future of garmenting looks very different. And we can create a new model for India, where it's driven by robotics.

It's driven by end-to-end sort of data movement, lots of focus on reduction of SMVs, which is the unit of time that drives efficiency, a lot of focus on material efficiency and sort of lowering of wastage. So, all of this, we are actually in the process of building a factory of the future in Bangalore, where the state-of-the-art technologies are invested into and efficiencies that are not achievable currently start to become possible with that kind of setup. So, all those kind of efforts are on. And we hope to be able to sort of make a huge mark in putting India on the global map, that leadership in garmenting. So, all that needs to be done. It's got nothing to do with government policy. It's all to do with how entrepreneurs are thinking about this industry.

Surya Narayan Nayak: So, your vision, in that regard, to go beyond 60 million pieces because by 2030, what is your vision going ahead? Because you are the only group perhaps who is talking of moving to north or the east or where the labor forces are amply available compared to the south, where some of the southern groups who are actually sticking to their area only. So, what is your vision for 2030 for garmenting?

Punit Lalbhai: 2030 can be a very different view. I think it will not matter so much where you go for garmenting because the labor intensity, hopefully, will become so manageable that all these sort of complex questions of going into back of the beyond places to chase labor, I think we are trying to re-write that script.

That said, I think India needs job creation everywhere. So, we have an opportunity as this industry to be part of that nation-building exercise. I think job creation is going to be one of the most important priorities of any future government. And I think our industry is the largest employer of people. And even after the reduced sort of manpower, intensity will remain very important in this job creation journey.

So, I think we will continue to explore newer areas. But we are also equally keen to explore newer models of manufacturing that sort of are modernized factories of the future, are Industry 4.0 and beyond, all of that.

Surya Narayan Nayak: And sir, your raw material intensity, is it raw material to sales in the AMD side, will it be stable? Or is it going to see some sort of a downward cycle?

Punit Lalbhai: Again, it's very segment-dependent, and it depends on the product and category. So, I think that's not a question that is relevant. I think you need to track it for each segment. And the general directionality will be that we will be upgrading the criticality and sort of quality proposition of our product mix to higher and higher and more and more profitable lines of business as we go forward and mature more with our portfolio. So, that's the general answer. For more specifics, you'll have to track segment by segment.

Surya Narayan Nayak: And is there any chance we are actually eyeing the aerospace industry and the composite sector?

Punit Lalbhai: Yes. Ultimately, yes. But there is a lot of lower-hanging fruit that we can sort of target first. Aerospace is a long-lead-time business. You need a lot of time to get qualified for it. So, we've started those exercises and processes and certifications. And at an appropriate time, we will see if we want to sort of invest heavily behind it. At the moment, we have enough engines to grow at the rate we want to grow.

Moderator: We have the next line of Prerna from Elara Capital. Please go ahead.

Prerna Jhunjhunwala: Sir, I am still not very clear on AMD business, how we should look at the growth in that business, given that human protection is likely to grow better going forward than in the last couple of quarters?

Punit Lalbhai: When it comes to the first quarter, which was strike impacted, I think the 3 quarters should be closer to that 18% to 20% mark. 18% is what it's looking like right now.

Prerna Jhunjhunwala: The ask rate for the third and fourth quarter is much higher is what I was just thinking when you mentioned 18%.

Punit Lalbhai: Yes, it is correct. Yes, it is. And I think equally sort of good visibility of demand is also there. So, we feel confident that we can do it for the 9-month period.

Moderator: That was the last question. I now hand the conference over to Mr. Satya Prakash for closing comments.

Satya Prakash Mishra: Thank you, everyone, once again for participating in the call. I hope most of your questions are answered during the call. Me and my colleague, Himanshu, are just a phone call away for taking any balance questions, if at all, anything is left out. Looking forward to meeting you in the upcoming conferences, and for the desk of Arvind's Management team season's greetings for the Diwali. Thank you, have a good evening ahead.

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