“Arvind Limited

Q2 FY27 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to Arvind Limited Q2 FY27 Earnings Conference Call. As a reminder, all participants' line 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 this conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

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

Satya Prakash Mishra: Thank you. Good afternoon, everyone. A very warm welcome to Arvind Limited earning call for the quarter and half year ended September 2026. The financial results and investor presentation have been uploaded to on our website and I hope you had chance to go through them.

Before we begin, let me introduce the management team today. With me, Mr. Punit Lalbhai, the Vice Chairman, Mr. Jayesh Shah, Full-time Director and Group CFO, Mr. Nigam Shah, Executive Director and CFO of Arvind Limited.

I will start with a quick overview for the quarter, how the operating environment shaped up, our operational and financial performance and the outlook for the near term. After that, Punit will share his perspective on the broader environment and our strategic priorities and then we will open the floor for questions.

Let me begin by saying that this has been a record quarter for Arvind and it has come in what has clearly been another year of disruption. The conflict in Middle East and Europe has continued and its effects have gone well beyond the first quarter. We have seen it in energy prices, in freight routes and in cost of crude and petrochemical-based inputs, including its punitive impact on the currency.

A significant part of our cost continued to reflect high-priced cotton and petrochemical inputs procured earlier part of the year, while supply chain disruption added further pressure. Despite these challenges, we remain focused on execution and took a proactive approach to cost management, sourcing and operational efficiencies.

Against this backdrop, our performance once again underscores the resilience of Arvind's business model. While we continue to grow volumes and strengthen customer relationship, we have also demonstrated the ability to navigate difficult market conditions through disciplined execution.

Our integrated textile value chain remained a key strength, while the growing contribution from advanced material business continues to diversify our earnings portfolio and create new growth avenues. Coming to the operations part, we saw healthy volume momentum across our core textile businesses, supported by strong execution, higher vertical integration and portfolio additions in our advanced material business.

In denim, volume crossed 18 million meters during the quarter. This is the highest in 17 quarters, a growth of 19% on a year-on-year basis. This is on the back of higher demand. In woven business, volume stood at 34 million meters. In garmenting, we crossed 11 million pieces for the second quarter in a row.

On the strategic side, two developments are worth highlighting to you in this call. First, last quarter we spoke to you about our design gallery in London. This quarter, we have taken the next step in Europe with a denim design and marketing hub in Amsterdam, which is a global center for denim innovation and fashion. This brings us closer to our customers and strengthens our representative network in key overseas markets like Europe.

Second important one is we commissioned our Phase 1 of the greenfield garmenting facility in Varanasi. I am sure all of you have heard of it and seen it in your social media posts. Phase 1 of this has a potential of giving a revenue of INR250 crores, which has been done with a capex of INR75 crores, which also includes the cost of land.

This takes us our forward integration strategy in textile business further and strengthens our ability to serve global customers in the knitted and essential segment. Advanced material has had a dream run again this quarter with a high double-digit volume growth and mostly in human protection and composite segments.

Both of these businesses are seeing high demand from Tier 1 customers as well as defense and mobility segments. We also have a few important order wins during the quarter, including prestigious ones from Indian defense. Overall, the pipeline looks robust for the future as well. Now, coming to the financial performance during the quarter, consolidated revenues stood at INR2,919 crores, a growth of 23%. EBITDA was at INR331 crores, up 27%. Both these key figures are all-time high quarterly numbers for Arvind Limited.

Importantly, we held our EBITDA margin at 11.4% in a quarter where raw material prices had higher impact compared to quarter one. This reflects a better business mix, operating leverage and disciplined execution and most importantly, the bludgeoning of cost aspect under our watch, which will also have lasting impact in quarters ahead. Coming to the segments, textile business reported a revenue of INR1,999 crores, up 11% with an EBITDA of INR190 crores.

Margin would have been a little higher but for rising input cost, which had an impact of 75 basis point in textile margins. Garmenting reported a revenue of INR577 crores, which is a growth of 9%. This is on account of better product mix and higher realization. Moving on to advanced material, this business reported a record revenue of INR805 crores, up 81%. This includes numbers for Dalco-GFT for a full quarter of 3 months. The India business also grew at a strong 23% to INR550 crores.

This is the fifth quarter in a row of strong growth led by high volume growth in human protection and composite. Dalco-GFT in its first full quarter with us, reported a revenue of INR256 crores. This was supported by robust demand in US, stable volumes and margins, though it was affected by high raw material cost as well, including sharp rise in fuel prices. What is encouraging is that

AMB India's EBITDA growth has been 29%, which is higher than the revenue growth, which is on account of better product mix and operating leverage.

Overall, the advanced material business EBITDA margin stood at 14.8% during the quarter. Consolidated net profit after tax stood at INR123 crores, which is a growth of 16%. Consolidated net debt position decreased by nearly INR95 crores to INR2,063 crores. This is in spite of a temporary increase in working capital, which will normalize by March 2027. Coming to capital allocation, during the first half of FY27, we have invested roughly about INR372 crores across our capex programs across various businesses and this is in line with the plan that we have laid out for the full year.

I am also happy to share that Arvind's credit rating has been upgraded by one notch from AA- to AA with a stable outlook by CARE Ratings agency. We see this as a recognition of our stronger financial profile. Looking ahead, we remain cautiously optimistic about the operating environment. The recently implemented India-UK trade agreement and India's relatively favorable tariff position in the US compared to the competing sourcing countries are expected to support order flows from the second half of the year, while the proposed India-EU FTA free trade agreement provide an additional long-term growth runway.

In advanced material, demand continues to be supported by strong momentum in defense, aerospace, renewable energy, infrastructure and specialty industrial applications. In particular, the continued scale-up of our defense business and allied programs supported by higher capital spending and localization of initiatives provide confidence in delivering 18% plus growth in quarter three FY27.

At the same time, the raw material availability, elevated input cost continue to exert pressure on margins. Through focused sourcing and productivity and pricing initiatives, we remain confident that the margin will be maintained in future. All growth capex projects remain on track and we expect to invest more than INR500 crores during FY27.

To sum up, while the operating environment continues to evolve, we enter the second half on a strong footing. New trade agreements, a growing advanced material franchise and our integrated fiber-to-garment model provide multiple levers of growth. Coupled with long-standing customer relationship and stronger balance sheet, we believe we are well positioned to navigate near-term challenges and deliver sustainable profitable growth. I will now hand over the call to Punit for his opening remarks.

Punit Lalbhai: Good afternoon, everyone. Pleasure to be here. Satya has given a very comprehensive sort of rundown of what happened during the quarter and also a glimpse into the future. So, I keep my comments really brief before we go into question and answers. The factors that has been most encouraging through this period is that demand is held up quite well. Both in textiles and advanced materials, we are looking at, you know, a reasonably robust demand environment and which is giving us confidence that we should be able to deliver good numbers going forward as well.

However, on the flip side, the global conflicts have led to cost escalations, mostly in raw material and logistics, which are rising so sharply that even an improving currency and a reasonable amount of cost pass-on is still lagging these dramatic increases. And there is no let up on the horizon that is currently visible.

So, it seems like we will have to still navigate the complex environment, but with the, you know, experience that our team has, especially with delivering a couple of reasonably strong quarters in these environment, in this very environment, we feel that we should be able to manage. So with that cautiously optimistic note, I open up the floor to questions.

Moderator: Thank you very much. We will now begin with the question-and-answer session. Anyone who wishes to ask a question may press star and one on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

The first question is from the line of Aradhana Jain from 360 ONE Capital. Please go ahead.

Aradhana Jain: Hi. Thank you for the opportunity and congratulations to the management on the good set of numbers. Couple of questions from my end. First, sir, wanted to understand a little more on the garmenting segment. While there's been a growth of 9%, but volumes continue to be a little on the lower side. So, we delivered like a 4% volume growth this quarter.

What exactly would you say is leading to, you know, the volume growth not being on the higher side? Is it demand, is it capacity availability or, you know, are we facing any other issue on the garmenting side? And how is the order book shaping up for you in the second half of this year from both domestic and export standpoint? And how are things shaping up from US and UK perspectives specifically, given that there's been a lot of, you know, tailwinds on that side?

And lastly, on the garmenting side, given we've done a Phase 1 expansion in Varanasi right now, could you help us understand what is the way forward with respect to the overall garmenting expansion over the medium term, you know, from Varanasi perspective or the other geographies that we are into? And how much would we expect the capacities to overall increase over say the next 3 year to 4 year period in the garmenting side? That's my first question.

Punit Lalbhai: Sure. So, the answer to the garmenting question is very simple, that we should be able to catch up in the second half. We have been increasing capacity steadily and we've always been guiding that, that capacity increase sort of should lead to, you know, mid-teens kind of overall growth and give or take, you know, percentage here or there. So, I think we should still be on track to deliver that by the year end.

So, we are expecting a much more growth-oriented second half compared to the first half, which is normally the sort of seasonality that, that the business with our set of customers experiences. That said, H1 was a little soft on demand in a couple of categories, but particularly the export market for knits, couple of our customers did see, you know, volumes that were lower than

expected. So, maybe we had a little bit of extra capacity that we didn't utilize in the first half of the year on the knit side.

But denim has been performing well, shirts has been performing reasonably well, essentials has been doing extremely well. So, broadly, we are all going in the right direction. The capacities are coming on stream broadly as per expectation and we should be in that mid-teens level of growth. And I would guide everyone to sort of switch over their thought process to revenue rather than number of pieces because now our product mix is getting fairly complex and number of pieces don't accurately reflect, you know, how that growth is going to come.

So, I think the simpler way to think of it is what should be the revenue growth and revenue growth will always be a mix of price and product mix. And we had a softer product mix in quarter, in the first half of the year. The product mix towards the second half of the year is a lot richer and therefore we feel confident of catching up on growth. Varanasi, of course, is the greenfield that we've kicked off this year, but we continue to also do brownfield investments to make our existing locations more productive and that is happening quite satisfactorily.

Aradhana Jain: Understood. Of the INR500 odd crores of capex that we plan to do for this financial year, of which more than INR370 we've already done in the first half, how much is attributable towards garments and what are the other avenues where we are putting up the capex?

Punit Lalbhai: So, maybe about INR200 is to advanced materials, maybe about between INR120 to INR150 for garments and the rest will be in fabric and maintenance.

Aradhana Jain: And so, what sort of products are we going to manufacture in Varanasi and what sort of margins can we expect from that particular facility over a steady period?

Punit Lalbhai: So, Varanasi is going to manufacture mostly essentials, which is actually our most profitable segment and that product essentials and knitted goods and it will, of course, take the next 6 months to 8 months will sort of be focused on ramp up, but Varanasi should deliver a double-digit EBITDA and a 20% plus return on capital employed once it is fully scaled up.

Aradhana Jain: Understood. And on the denim side, sir, we've been doing exceptionally well, at least in the last couple of quarters, the growth has been really good. What exactly is driving this acceleration and I -- my understanding was that denim is typically a very cyclical segment of yours. So, from a longer-term perspective, do you expect this growth momentum to sustain and how we should build in for your denim business?

Punit Lalbhai: It used to be a cyclical business, especially when we had much larger capacities and were indexed on more commoditized type of business. Now, our business is more focused and therefore, the cyclical nature is going out of the business. So, you would have seen, you know, steady improvement quarter-on-quarter over the last say 6 quarters, 7 quarters. So, I wouldn't worry about this being a cycle and what is driving this improvement is a heavy investment actually in design, innovation.

We have completely overhauled our product capabilities and we are continuing to add more and more qualitative enhancements to maintain and even further strong position. And just to name a couple, Satya mentioned in his opening about, you know, studios. So, our Amsterdam studio and our London studio with, you know, top quality design and technical talent and being closer to customers is going to make a difference even going forward. And as we speak, a third studio is being conceptualized in the US, where we are enhancing our firepower to sort of up our innovation, design and customer centricity.

And to add to that, we are increasing our options from the perspective of country of origin. So, we are looking at places like Bangladesh and Egypt as we speak and we had good business through Bangladesh garment conversion, which we manage in quarter two and Egypt should see its first deliveries for denim go out in quarter three. So, having this multi-country fully vertical delivery with top-end design, innovation and customer centricity, that's what actually driving the sustainability of this strong denim performance.

Aradhana Jain: Thank you.

Moderator: The next question is from the line of Shirish Pardeshi from Motilal Oswal Financial Services Limited. Please go ahead.

Shirish Pardeshi: Hi, Punit and team. Thank you for the opportunity and congratulations for a good set of delivery. Punit, I've got two questions. Strategically, you mentioned that we should not be looking volume. But then 40% of our business, which is woven in Slide 9, the overall million meter number is around 34. How we should look at this number in second half?

And in tandem, denim is done well. So, I would understand there is some format integration, which we have talked about is materializing. But then even in garments, also the number of pieces remain flat. So, I'm sure you have given some direction saying that second half is going to be better. But is that 11 million is significantly going to move towards 12.5-13 or will remain in the range of about 10% growth?

Punit Lalbhai: So, we should creep into the mid-teens is what I mentioned. I think there will also be an uptick in volume. But the second half of the year is heavily indexed towards denim sales. And that is a higher so the product mix is going towards higher unit sort of FOB. So that will also drive the growth. So, our denim capacity is coming on stream in the second half, the brownfield expansion that we did.

So, while number of pieces might go up less, the turnover will go up higher than the number of pieces. So, when knits comes, the number of pieces will jump more and turnover might not jump as much. So, it is very product mix dependent and depending on what capacities are coming on stream, there will be a certain patchiness to the change in the number of pieces.

But you should see now a reasonable secular average of 15% growth year on year. That's why I am trying to index all of you towards top line growth. But yes, even volume should grow and

ultimately, it has to if we are to maintain the 15%. But just looking at quarter-on-quarter might not give you the real picture.

But yes, second half, we should see better than 11. And we should see 15 or better overall. And on woven, we are actually adding some capacity. See, second half of the year in woven is always higher than the first half because first half we do is you're catering to product that sells in winter.

So, the wallet share of woven goes down in the first half of the year. Second half of the year is spring summer. And that's why the full capacity utilization always happens in the second half. Now, we are addressing that going forward by adding winter specific, special, high value product capabilities in wovens.

For example, we have doubled our corduroy capacity, we are adding flannel capacity. So, the long term or medium-term goal is to even out the seasonality and invest in certain product categories that allows the first half of the year to have higher volume. That's how we will grow volume next year.

Shirish Pardeshi: That's really helpful. Just one follow up here. On Slide 11, we have given the realization growth both in fabric and woven is about 20%. So is it purely because of the cotton spread, which has gone up or is it is it something which was because of the product mix also, which is changing?

Punit Lalbhai: The product mix is there. I think both things are there. But the primary driver of realizations is the price pass through that we are trying to do working very hard to push that to the customers. We are still, I'm not able to do as much as we are getting hit by. So that is why there is a slight compression of margins still. And unfortunately, we feel every time that next quarter, once everything normalizes, we'll be able to catch up.

But this every quarter, there is some new escalation that is happening. So, we are sort of keeping the trend at this point. But you know, as all things must sort of normalize, given enough time, there will be the other end of the trend where we should be able to sort of gain what we are losing right now.

Shirish Pardeshi: Okay. And last question on the advanced material business. Two parts. One is India growth is 12%. So, I think it is it is exceeded our expectations. What is working here? And in the second half, how we should look at Delco spread to move and margin guidance if you can give?

Punit Lalbhai: So, the India growth is quite robust. It is almost 23% and mostly driven by human protection and composites where we have close to full capacity utilization and very good demand scenario. On industrials, the unfortunate bit was because of all these international conflicts, our main investments that we made last year for our growth for this year, got stuck in logistics, and we lost maybe one and a half quarters of production against our sort of budgeted plan. So that now has come on stream. And therefore, the second half of the year, we should see growth returning to the industrial segment as well.

Shirish Pardeshi: And on Dalco?

Punit Lalbhai: And Dalco has been so it is on plan, they are trying to grow at that 9%-10% originally. And they are at that so demand is very robust. Also, the margin is a little compressed there because even more than Arvind, they are more directly impacted by petrochemical escalations, because the raw material is all petrochemical based.

It's all synthetic. So, there the hit on raw material cost has been the highest in our entire ecosystem. But the good news there is that the cost pass on has been the most successful there as well. So, we've been able to make those adjustments. And we did suffer a couple of quarters. But from September onwards, our new prices have been accepted by many of our customers.

The good news is that I just personally had the privilege of meeting all the important customers firsthand. And the feedback is extremely positive about our value proposition and our importance. So that was quite reassuring. And after having seen the business very closely for the next 6 months, our original investment thesis is probably as good or even better than what we had expected when we made the acquisition.

Shirish Pardeshi: That's really helpful. Thank you, Punit and all the best.

Shirish Pardeshi: Thank you.

Moderator: Thank you. The next question is from the line of Vishal Mehta from IIFL Capital. Please go ahead.

Vishal Mehta: Yes, thanks for the opportunity and congratulations on good set. My first question, Punit is on this slide that you've mentioned that we've added capacity on the composite side for carbon pultrusion. So apart from already served end industries, do this add more end industries and how are the thoughts of growing this particular line of business?

Punit Lalbhai: So, carbon pultrusion and generally carbon overall, where we've also added weaving capacity and are also sort of doing product development on molding and component manufacturing. This is seeding the medium term. This is how the business will pivot towards the really proprietary and high value segments in this industry, which is drones, aerospace, defense, automotive parts, etc. This business is also the most critical. So, it takes a while to achieve any meaningful scale. And there is no shortcut to quick growth, unless it be inorganic.

So, while we are very excited about this investment, and while it will lay the foundation for our transition from our current base to a more advanced product mix going forward, it will still take time for this business to form any meaningful part of the overall turnover. So, it will contribute maybe few 10s of crores in the coming couple of years. But it is a very important start to have made because three or four years down the line, we would like carbon to be 20%-30% of our overall product.

Vishal Mehta: Okay, that's good to hear. My second question was on denim capacity our volumes have been growing quite well. But on capacity side do we have enough capacity to continue growing at this pace here? Are we looking to add more capacity on the denim fabric side?

Punit Lalbhai: So, we are doing some de-bottlenecking investments. And we are creating some capacity through asset light models. So currently, we are very close to full capacity. So, till now, we were sort of we had some headroom, that headroom is now quite limited. So, we will have to create some headroom going forward, which we are doing.

So we should continue to see some growth if there might be a couple of quarters where it might not be very high. But if you look at a few quarters together, we should have enough capacity to continue growing. And we have tied up some external capacity as well for the immediate short-term needs. So, we are able to service our customers.

Vishal Mehta: Okay. Last question is on garmenting capacity. So guided to not look at volume strictly. So if you can just lay out what's our garmenting capacity on revenue terms, currently, and is there any large greenfield planned in garmenting or de-bottlenecking or brownfield will take care of the 15% kind of growth guidance for next couple of years that you have?

Punit Lalbhai: See, I want to first deliver a very robust performance on this 15% growth. As we speak, we are making very ambitious plans on garment greenfield investment. So, of the scale that perhaps has never been thought of at Arvind, but I do want to be careful before we sort of formalize and announce them.

So I think the next three to four quarters, the objective is to maximize all the brownfield opportunities and focus on these one or two greenfields that we have already sort of sparked. So that, that is enough to give 15% growth. But we are there is a 25% growth sort of model that is on the drawing board, which hopefully should be launched a few quarters down.

So, we, our ambition is to grow much faster in garments, but we don't want to falter on execution in trying to do that. So that is why my guidance is 15% at this point in time, I think the opportunity is much larger. And as soon as we are confident that we have achieved the right to play in that opportunity set, we will sort of change gears, that is the internal mindset at this point in time.

But we are very we are excited about the opportunity. We feel that India is going to become more important going forward. And what I'm very pleased about is that Arvind has demonstrated its ability to operate in multiple countries of origin, especially with the success of our Bangladesh launches and Egypt is going quite well as well. So with all of this, we are slowly building up to that position where we can put the foot on the accelerator.

Vishal Mehta: Okay. So, just clarifying with current capacity and the pipeline of expansions, brownfield expansions that you have, brownfield and greenfield, that should take care of 15% kind of growth at least for a year or so post that.

Punit Lalbhai: It can be higher.

Vishal Mehta: Thanks a lot.

Moderator: Thank you. The next question is from the line of Omkar Rane from Emkay Global Financial Services. Please go ahead.

Omkar Rane: Thank you. I just have a bookkeeping question. I just wanted to understand the current capacities of woven denim and garmenting and how would it move over FY27-FY29? Because I think we have pretty much utilized the headroom we had in denim and going forward, how much are we going to rebuckle now?

Satya Prakash Mishra: So, in denim, our capacity is about 70 million meters per annum. And in wovens, it is roughly about 140 million to 150 million meters per annum. These are all our in-house capacity. Like Punit has already said, we also tie up with a lot of partners on an asset light mode to take care of demand that comes in tranches. So, we'll always take advantage of that asset light mode whenever it is available and wherever it is available. And we will try to keep our investment light mode on.

Omkar Rane: Thank you. And my second question is regarding garmenting, the product mix within garmenting. So how do we see the mix changing going forward now that FTA opens up door for experts and we see the volume growing at 15%? Do we see any significant movement in the garmenting volume mix?

Punit Lalbhai: So, the denim jeans will see the fastest growth initially because that's where most of our focus is right now. It's also one of our more profitable and strategically important capacities that has the potential to drive further fabric volumes as well going forward. So, denim is the most in focus right now and the product mix will shift more towards denim. Essentials is growing with Varanasi edition and knits will be the next area to grow.

Shirts will grow relatively slower because right now for us to sell woven fabric is quite easy and there is the competitive landscape there is more favorable. So, we are sort of prioritizing the segments where verticality can help grow the end-to-end vertical business a lot faster, which is denims, essentials and knits to begin with.

Omkar Rane: Thanks. Thanks a lot, sir. Thank you.

Moderator: Thank you. The next question is from the line of Ankit Shah from Anand Rathi Share and Stock Brokers. Please go ahead.

Ankit Shah: Our credit rating has been upgraded. So, how will finance cost move ahead?

Satya Prakash Mishra: See, as a technical understanding, there is a 25 basis point, I would say, upward swing that should be possible with the rating. But as you know, RBI has already announced the rate increase regime in the repo, and we expect that to continue probably for next two quarters and have 50 more basis point added to the repo.

So, that may or may not translate in the real-world benefit that would have otherwise, on a status quo basis, come to the company. But we will definitely try to maximize that and use that as a negotiating term with all the bankers to get more favorable rates.

Ankit Shah: Okay. What about the debt levels? Where can we see the debt levels going ahead? We have a good free cash flow coming in, so how will the debt levels move ahead?

Nigam Shah: I think we are able to consistently maintain the overall debt level low. So, maybe around INR350 crores to INR400 crores, the term loans will remain, and the working capital will remain within the 60 days net working capital scenario. So, accordingly, I think there is some movement. Otherwise, debt level remains same, and I think whatever we have borrowed, for the Dalco acquisitions, we are expecting to repay that as per the scheduled timeline now in May '27.

Ankit Shah: Okay. That's it from side.

Moderator: Thank you. The next question is from the line of Surya Narayan Nayak from Sunidhi Securities & Finance Limited. Please go ahead.

Surya Narayan Nayak: Thank you, team. So, Punit Bhai, some questions on the period of uncertainty regarding the fuel prices and associated costs on the commodity side. So, how often we are able to pass on, or let's say, review the prices with the clients? Because in the slides it has been mentioned that some portion of the cost hike could not be passed on. So, that is question number one.

And second is that, going forward, looking at your past conversation, what I understood is that we are moving towards more on the denim side and the knit side, so far as verticalization is concerned. And also, at one point you told that in case of denim, because of our focus on the Amsterdam and London studios, so we are getting a lot of inquiries and we could be moving more towards the denim.

So, in that case, you said that you will be raising the capacity, maybe you are intending to raise the capacity going forward, whereas Satya later told that you will be going asset-light. So, if you can clarify that.

Punit Lalbhai: We are trying to be as asset-light as possible. So, where we can source fabric and do garments, we can source fabrics from other approved sources and still do the garment verticalization and grow. That would be an example of asset-light growth.

But we will also add meters in terms of fabric capacity to the tune of maybe 10% additional capacity through, again, not very large investments. A machine here, a machine there, that can allow us, with a marginal investment, to increase production. So, modernization of a few machines, higher RPM looms, those are the kind of. So, what Satya said and what I said are not at odds with each other. It is still asset-light, and we are adding capacity. I think there are opportunities to do that.

Surya Narayan Nayak: And what about the first questions of how often we are visiting the raw material prices pass-through to clients?

Punit Lalbhai: Every quarter. And every quarter, we have more work to do. So, we are chasing the trend at this point in time.

Surya Narayan Nayak: Because in recent times, what we are hearing from metals and other players that now they are visiting the pass-through even monthly based. So, is it possible on our part, because if these uncertainties extend, is it possible to look at that kind of scenario too?

Punit Lalbhai: Even more frequently than that. But see, everyone must understand that beyond a certain point, there is no demand, right? So, beyond a certain cost escalation, there is demand destruction.

Surya Narayan Nayak: Correct.

Punit Lalbhai: So, you can only pass on to what the market is able to absorb. And, unfortunately, the market takes time to be able to absorb more. And there will always be people who have lower capacity utilization, etcetera, that might be willing to sell in distress. So, there are always counter forces that don't allow you to maximize the pass-through. But there are strategies that one can use to combat that.

For example, we are upgrading our product capabilities. We are trying to manufacture products that have better competitive environment, where we have more proprietary products, more complex, products that have a high component of design and innovation in them. So, those are the strategies to be able to get a better realization in this tough time. But the speed at which the escalations are happening because of continued uncertainty in the environment, that's something that is beyond anyone's control.

So, we are using all the levers available to us, trying to convince customers to increase prices, changing product mix, trying to make up with volume when we cannot make up with margins. So, all of those strategies are at play, and all of that combined is helping us remain reasonably on the positive trend in terms of quarter-on-quarter performance.

Surya Narayan Nayak: So, the current scenario, what kind of GP level pressure we are seeing which can use later on, and what kind of pressure on the other expenses related to logistics is happening?

Punit Lalbhai: So, logistics, thankfully, 18% of the customers take care of it, so it is on their account. But it does impact their decision-making. So, logistics is having more of an indirect impact on us. The direct impact is every quarter we are having to create solutions for, say, 75 to 100 basis points of gross margin erosion that we have to try and fight and win back.

Surya Narayan Nayak: Okay. In this quarter, there is significant rise in the purchase of further goods. Hello? Yes. Is it related to some kind of outsourcing arrangement for the fabric or denim side?

Satya Prakash Mishra: So, Surya, this is, I think, in line with what we have been discussing, that we have started this Bangladesh part where we basically forward our fabric and then get the garment converted over

there. So, that's the stock-in-trade increase. If you see quarter one and quarter two, there is not a large delta because it's incremental. Between last year when it was not present and current year, you see that delta. So, it will incrementally be in this range, what you saw in quarter two.

Surya Narayan Nayak: Okay. Satya, what would be the exit capacity of garment for FY27 and '28?

Satya Prakash Mishra: Garment capacity in India?

Surya Narayan Nayak: Yes. Overall, it is from 45 to 50 or 60 it could be this year, what I believe

Punit Lalbhai: Overall, we expect that to grow by 15% in terms of it.

Surya Narayan Nayak: Okay. Because more knit and essentials we will be focusing other than the denim, so is it that now we can expect a higher ROCE going forward?

Punit Lalbhai: ROCE will be higher because we are improving our position of mature factories and getting more efficient and winning the right kind of orders. I think capacity increase actually has a negative impact on ROCE because newer investment is coming and the denominator in ROCE formula is going up.

Surya Narayan Nayak: Okay. And what is the utilization level at the US level, and what is the expected timeline of incremental lines coming there?

Punit Lalbhai: That we are growing again. We are investing in our next line this year. So, hopefully next year we will see some higher growth level, and the year after next is when we will reach our target of mid-teens growth level.

Surya Narayan Nayak: And current utilization, sir?

Punit Lalbhai: We are at very high levels of utilization.

Surya Narayan Nayak: Okay. Thank you.

Moderator: Thank you. The next question is from the line of Prerna Jhunjhunwala from DAM Capital. Please go ahead.

Prerna Jhunjhunwala: Thank you for the opportunity. Just wanted to understand, sir, the US market, that being a key business geography, and you mentioned in your outlook slide that it still presents mixed signals. So, how are the inquiries and order books in US geography, and how are we seeing that geography growing in the second half and year to come?

Punit Lalbhai: So far, we are seeing reasonably okay demand signals from the US Of course, your guess is as good as mine in how prolonged this conflict will remain, and the longer it remains prolonged, the more chances of demand sentiment shifting negative.

But so far it has not shifted negative. So far things are looking okay. Our order book for quarter three is extremely strong, and quarter four is building up quite nicely. So, as of now, we are not seeing any of those concerning sort of signals.

Prerna Jhunjhunwala: Okay. And if you could highlight on AMB business also, like this is for garmenting from consumer angle. And what about AMB B2B that we do in US?

Punit Lalbhai: In US, there are certain segments that are driving the demand. For example, data centers are growing very aggressively, so that impacts our composite business very positively. The industrial growth is quite robust in the US, so our industrial products are also selling well in the US And Human Protection is also okay. So, from an advanced materials perspective, the US market is also showing positive trends only.

Prerna Jhunjhunwala: Understood. And the last question is on UK. What kind of inquiries and improvements you are seeing in that market, given that it's almost a quarter that the FTA has been implemented? Any positive signs that you can highlight should be helpful.

Punit Lalbhai: Yes. I think that conversation, a lot more customers are interested in sourcing from India, so everybody is traveling to India to sort of see how they can move more business here and de-risk their exposure to some of the highly indexed geographies. So, we expect this business to go up. And I think the first fruits should start getting realized maybe sometime in quarter four, and then next year should be significantly higher UK business, maybe by 10 million to 12 million extra.

Prerna Jhunjhunwala: Okay. Understood. And this is valid for both garmenting and AMB?

Punit Lalbhai: No, overall. I'm just giving you an overall. It will be more vertical business because UK is a vertical market. There is very little fabric nomination in UK. Customers like to buy end product in that market, so it will be more garments only.

Prerna Jhunjhunwala: Understood. Thank you, and all the best.

Moderator: Thank you. The next question is from the line of Harsh Mittal from Emkay Global Financial Services. Please go ahead.

Harsh Mittal: Yes. Good evening, team. Thank you for the opportunity. I have a question. In the opening remarks, you said that Arvind has got orders from the Indian Defense. And in the PPT also, it is written in the Human Protection that from Tier 1 customers, some traction seems to have defense and the paramilitary forces.

So, just wanted to understand, is this a new client addition or there is more and more penetration happening in this segment? How should we see this thing?

Punit Lalbhai: So, I think defense is a large consumer of our products and many of these, especially combat uniforms and officer uniforms are consumables. So, every cycle it needs to be reordered. So, there is a renewable sort of pipeline that exists.

And I think year-on-year, the intention of the armed forces is to equip our brave men and women with better and better quality of equipment. And I think that trend is where we have an opportunity to contribute through our capabilities, through our ability to innovate, to be able to give better and better solutions for this strategy of the Indian Defense to upgrade and equip our forces better.

So, that's how this business happens, and we are pitching in with more and more solutions for newer applications as we acquire the capabilities to address those acquisitions. There is a real focus on localization and sourcing domestically through Atmanirbhar capabilities. And we are a player in that sort of shift.

Harsh Mittal: Understood, sir. Sir, my last question is on the capex. You have mentioned INR500 crores capex is for this year. Is this capex includes the Dalco's capex that you are going to do?

Punit Lalbhai: No. This is just India. And Dalco has its own capex program, which is around INR5 million a year.

Harsh Mittal: Sure. Understood, sir. Thank you. These were my questions. Thank you.

Moderator: Thank you. The next question is from the line of Tanishka Agrawal from Niveshaay. Please go ahead.

Tanishka Agrawal: Thanks for the opportunity. Am I audible?

Moderator: Yes, you are.

Tanishka Agrawal: So, my first question is like the raw material prices are currently elevated. So, what is the visibility on when full cost transmission happens and is 9%, 10% EBITDA margins are normalized and achievable when this full transmission happens?

Punit Lalbhai: So, we were at around 11.5% last year, and our stated objective is to improve maybe half a percentage EBITDA margin every year. The initiatives to allow that to happen are ongoing and going quite nicely, but the overall cost inflation environment is sort of hiding all those efforts. So, we are undergoing a very large transformative exercise on digitization, where we are digitizing and automating our planning.

We have just introduced a new TMS. We have automated our purchase and sourcing platforms. We are bringing shop floor level IoT and automatic data flow. All of this should unlock efficiency, reduce the need for non-value-added work, and should help our cost basis going forward.

So, we are also working very hard on value engineering in this difficult landscape. We are working hard on keeping our fixed costs frugal. So, all of those efforts will continue to deliver performance even after these inflationary trends are normalized. And that's when we should start seeing the margin expansion and the impact of all these fundamental initiatives that we are continuing.

So right now, I know it's not very visible, but there is a lot of effort going on to improve margin. And then of course, there will be economies of scale also coming in as we grow our top line. Our fixed cost should not grow as fast, so there should be margin unlock coming just from good old fashioned economies of scale.

Tanishka Agarwal: Okay, and also the fourth line which are INR70 crores annual revenue potential was commissioned in Q2. So, what is the ramp up timeline for full utilization and whether it is two quarters or four quarters timeline?

Punit Lalbhai: It was fully sold before we invested it and therefore it was very painful that we lost a quarter and a half of investment of revenue on that line. So now it started generating that revenue already.

Tanishka Agarwal: Okay, and also on the timeline for the 500 capex which we have planned. So, what is the timeline for the same?

Punit Lalbhai: So, it is a rolling timeline. So, every year we are investing and it takes about 2 odd years to utilize a capex fully. Generally, that would be the average sort of ramp up time. Some things ramp up really quickly like offline and some things take time like a garment factory. So, an average, so if I am investing 500 and I have an asset turnover of say on average 2.5 to 3, you should be getting 1.5 in the first year and then 3 in the next year.

Tanishka Agarwal: Okay, and just one last question. So, the Varanasi Phase 1 are still for INR70 crores revenue annual potential. So, what is the total garmenting capacity after both the phases?

Punit Lalbhai: So, I will add almost 25 million pieces in Varanasi, but those pieces are essentials, so they are really small garments. So again, which we don't count in this 50 million at all. So, it is better to look at turnover as I keep saying, and so it will contribute towards being able to grow at 15%.

Tanishka Agarwal: Okay, thank you.

Moderator: Thank you. The next question is from the line of Tushar Dhonde from Shanghvi Family Office. Please go ahead.

Tushar Dhonde: Yes, thank you for the opportunity. Hi team. I wanted to ask a question more on the export incentives. So, the RoSCTL scheme has been extended till the December end. I just want to understand your thoughts on this. Are we dependent on this scheme? And if so, then what percentage of revenue and what percentage of EBITDA? And how do you see the likelihood of this scheme getting extended?

Satya Prakash Mishra: So, you know, I think a business should never be dependent on export incentives to sort of support it. So, while these incentives help long-term, we should have the ability to continue to improve our performance, irrespective of whether it is there or not. So, we don't spend too much time worrying about this. Our plans will still be realized if it is there. Yes, there might be a quarter or two of impact, but then things readjust pretty quickly, once these things change and the market adjusts to it.

Tushar Dhonde: Possible to share any number on the current business?

Punit Lalbhai: I don't have that number on the back of my mind at the moment. I will ask the, the Investor Relations team to send it across.

Tushar Dhonde: Okay, thank you, and all the best for the future.

Moderator: Thank you. The next question is from the line of Aradhana Jain from 360 ONE Capital. Please go ahead.

Aradhana Jain: Thank you for the follow-up. Just had one bookkeeping question. We've closed the QIP during the mid of 2Q of 500 odd crores and I believe that that 500 odd crores was to be used towards reducing our debt. So, wanted to understand where are we on that reduction of debt timeline and once that's reduced, what is the peak debt that we expect to be at? And since which year should we expect the debt to start reducing?

Nigam Shah: So, the QIP proceeds, we are going to pay because the debt scheduled repayment time is in May 2027. This is the ECB, so accordingly we have to follow the RBI norms. By the time we have utilized that money for our internal growth purpose, so you might have seen the working capital borrowings have not increased yet in last 6 months.

So, that is one and second is, I think we can expect that from next year onwards, Q1 onwards, you can expect the debt reduction will be there against the acquisition only we have done.

Punit Lalbhai: So, just to give the overall philosophy, we wanted to see that the debt increase happened on account of the acquisition where 60 million was borrowed, in India and 40 million was borrowed on the Dalco balance sheet.

So, the Dalco cash flow is good enough to finance both the repayment of that 40 million and its internal growth aspirations. So, I think we should park that on one side. The 60 million is what will get paid back in May, which is why the QIP proceeds were sort of brought into the company. So, all the Dalco related debt increase has been sort of de-risked from either Dalco's internal cash flow or the QIP funds.

And we don't want to add any more long-term debt to our original pre-Dalco long-term debt, which was around INR400 crores. That will remain. We are not very bothered about it either because it's a small on our balance sheet and on our EBITDA generation potential, that's a very manageable and easy number. Our working capital will grow with the growth of working capital debt will grow with the growth of the business, but we want to maintain our six turns at a minimum and improve through internal efforts to improve the turns from maybe 6 to 7 over the next couple of years, right?

So, that's how the working capital debt will behave. So, we are not concerned about debt levels. We don't want to add to our covenant-bearing debt, and we don't want our turns, working capital

turns to deteriorate below 6, which currently they are because we have sort of invested in long-term stocks, because of these price escalations.

So, now is not a great time to be sort of looking at working capital efficiency because we have to go long on some certain inventories to ensure that we get availability and fixed prices. so that's the philosophy on debt, that working capital will grow with the growth in the business at 6 or better turns. Our long-term debt should remain at pre-Dalco levels and not grow further and with EBITDA growing, that will become less and less of a concern going forward. And we want to use most of pre-cash flow to find more and more aggressive growth in advanced material than garmenting.

Aradhana Jain: Understood. Thank you so much. That's all from my side. All the best.

Moderator: The next question is from the line of Bimal Sampat, an individual investor. Please go ahead.

Bimal Sampat: Yes, good evening.

Punit Lalbhai: Good evening.

Bimal Sampat: Yes, just on the denim front. We had one good brand, Ruf & Tuf. So now that we are seeing Trent is doing very well with their Zudio thing. So, since we are also into, we have an Arvind store, obviously you can sell there also, but is it not a right time to go into that market because that's volumes will be much higher and margins may also be good. It will be good for the domestic market. And the second question is on our capex of INR500 crores. Can you just give the breakup, sir?

Punit Lalbhai: So, I'll answer the second question first. It's broadly, close to INR200 crores for advanced materials growth. It's about maybe 120 to 150 for garments, the rest is fabric and maintenance. And Ruf & Tuf, yes, we own that brand. It's been dormant for multiple years. We are working on some very interesting just-in-time manufacturing capabilities which are in early stage.

So maybe in the future it might get revived, but as of now we don't have any plans of sort of doing a B2C play on denim using Ruf & Tuf. But that option is always available to us and we will keep exploring it. The brand created a lot of excitement when we had launched it in the mid-90s and there is still brand recall for it.

Bimal Sampat: Yes, maybe that time it was before time, maybe.

Punit Lalbhai: Yes, so we will continue to evaluate it. Thank you for the suggestion.

Bimal Sampat: Thank you.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I would now like to hand the conference over to Mr. Satya Prakash for closing comments. Over to you, sir.

Satya Prakash Mishra: Once again, thank you everyone for joining today's call. We trust that the discussion addressed most of your questions. Should anything remain unanswered or if any question arises going forward, please do not hesitate to reach out to me and my colleague, Himanshu. We are just a phone call or an email away and we will be happy to assist. We will look forward to engaging with all of you in our upcoming events. Thank you, and wish you a good day 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.