

07th September, 2018

BSE Limited Phiroze Jeejeebhoy Towers, Dalal Street, Fort, Mumbai 400 001. Scrip Code: 532782	National Stock Exchange of India Ltd. Exchange Plaza, 5 th Floor, Plot No.C/1, G-Block, Bandra-Kurla Complex, Bandra(E), Mumbai 400 051. Scrip Code : SUTLEJTEX
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Dear Sir / Madam,

Subject: Transcript of Quarter ended 30th June, 2018 earnings conference call held on 03rd August, 2018

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, kindly find enclosed a transcript of the earnings conference call for the quarter ended 30th June, 2018 which was held on Friday, 03rd August, 2018. The same is also available on the website of the Company i.e., www.sutlejtextiles.com.

The conference call held on 03rd August, 2018, as per the Transcript enclosed incorporates mainly the highlights of financial results upto 30th June, 2018, and other related information which is already in public domain and/or made available / uploaded on the Company's website.

Please take the same on record.

Thanking you

Yours faithfully

For **Sutlej Textiles and Industries Limited**



Bipeen Valame
Wholetime Director and C.F.O





Sutlej Textiles and Industries Limited
Q1 FY2019 Earnings Conference Call

August 03, 2018



MANAGEMENT: SHRI. S. K. KHANDELIA – PRESIDENT & CEO

MR. BIPEEN VALAME – WHOLE TIME DIRECTOR & CFO

Moderator: Ladies and gentlemen good day and welcome to the Sutlej Textiles and Industries Limited Q1 FY2019 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. Please note this conference is being recorded. I now hand the conference over to Mr. Bipeen Valame – Whole Time Director and CFO of the Company. Thank you and over to you sir!

Bipeen Valame: Thank you and good afternoon everyone. I welcome you all to the earnings conference call of Sutlej Textiles for quarter ending on June 2018. I have with me, Shri. S. K. Khandelia Ji – President and CEO and Representative from Stellar IR, our Investor Relationship Company. The investor presentation has been uploaded on the exchange and I hope everyone had an opportunity to look at it.

In Q1 FY2019 challenging business environment in spinning sector continued due to subdued demand, sluggish exports and lower government incentives on exports. While input cost continued to rise, product prices remained subdued in the market. We believe that with good monsoon recent government initiative on GST rates, general positive sentiments in Indian economy and strong consumption in festive seasons. We expect demand will revive going forward in domestic markets, which can give better pricing power.

Coming to the financial performance, the June quarter was marginally better compared to quarter four FY2018 in terms of total income and EBITDA. However increasing in input prices and operating cost especially kept some pressure on the operating margins. During Q1 FY2019, the company reported total income of Rs.621 Crores compared to Rs. 611 Crores in Q4 FY2018 with marginal increase of 1.74% against the turnover of 659 Crores in Q1 FY2018. Sales volume for yarn during Q1 FY2019 was 26768 metric tonne compared to 26569 metric tonne for Q4 FY2018 and 27560 metric tonne for Q1 FY2018.

In home textile the production, the capacity, the manufacturing was 1.588 million meters which is around 66.15% utilization in Q1 FY2019 as against 1.642 million meters in Q4 FY2018, this is other than the outside processing what we do at Damanganga Home Textiles.

Overall exports in Q1 FY2019 stood at Rs. 197 Crores as compared to Rs. 211 Crores in Q4 2018 and Rs. 115 Crores in Q1 FY2018. Exports as a percentage of overall sales is around 32% for Q1 FY2019 compared to 35% in Q4 FY2018 and 24% in Q1 FY2018.

Our EBITDA for the quarter stood at Rs. 55.33 Crores with EBITDA margin of 8.9% compared to Rs. 51.7 Crores in Q4 FY2018 with a margin of 8.63% and Rs. 76.28 Crores for Q1 FY2018 with margin of 11.58%.

The increasing input prices, subdued demand in foreign exchange, mark-to-market and reinstatement loss of 7.84 Crores on outstanding foreign exchange loan and exporter led to pressure on overall operating margins during the quarter.

We are continuously putting efforts in improving our efficiency to bring down the input cost in sustainable manner for which we have already installed 2.1 megawatt solar power plant. We would be adding 0.6 megawatt now and we are also evaluating of installing larger capacity of solar plant in Rajasthan.

The greenfield expansion project for manufacturing of polyester staple fibre by recycling of PET bottles will now be implemented at Baddi Himachal Pradesh near our existing unit. We already have land available for this project, the project is expected to be completed by Q4 FY2020 and we believe it will significantly contribute improving our overall operating margins going forward.

The company reported profit after tax of Rs. 8.63 Crores for Q1 FY2019 as compared to Rs. 9.78 Crores in Q4 FY2018.

I would now request Shri Khandelia Ji to share the business outlook and industry scenario and then we can start question and answer session. Thank you. Over to Shri Khandelia Ji!

S.K. Khandelia:

Thank you Bipeen and good afternoon to all of you. I am happy to be with all of you once again on this conference call and thank you very much for joining us. The challenging business environment in the spinning sector continued in Q1 FY2019 due to subdued demand. While input costs continued to rise the product prices remained subdued in abstinence of normal demand.

Downstream value chain partners that is weaving, knitting, processing, garmenting are mostly in unorganized sector and have taken more time than expected to come out of the serious disruptions, which was caused on roll out of GST with frequent changes by GST council.

There was no tax on fabrics prior to GST regime and therefore they are not used to the type of complied sales required under GST regime. Inverted duty structure on synthetic textiles with no provision of refund of accumulated GST to fabric manufacturers further completed at the business environment and increased cost of fabrics.

Significant reduction in duty drawback risk from October 1, 2017 has adversely impacted export competitiveness from India. Strong rupee till May 2018 further reduced export competitiveness. Currency currently the production environment which is the ultimate product for exports that will fall in demand in profitability in case of specialty cotton Melange Yarn had also fallen because most of the sales of such yarn is to garment exporters and exports of garments was down by 17% in Q1 this year.

In case of home textiles, where we manufacture curtains and upholstery. The utilization was only about 66% due to bad market conditions. Payment cycle in domestic market has increased to six

months and more after GST. We do not want to increase our risk and therefore we consciously reduced our volumes in domestic market. Similarly in case of export market also customers started asking for the clean credit that is dispatch of goods without getting the payment and since this is not our practice, the volumes of the same also introduced. Besides after acquisition of American Silk Mills and during discussions in last few months with their marketing team, we realized that our present product mix which is mainly in lower and medium categories needs to be revamped by addition of various machines and equipments for specialty finishes and for enabling use of specialty yarns with international designs and our marketing team also needs to be strengthened.

We are taking required steps for ordering required machinery and equipments for improved product mix and we hope that this would be in place by the end of this financial year. We have also had on contract basis a team of German designers for international designs enabling our entry to more paying and value-added markets of European Unions, USA and other developed countries. We are also strengthening our marketing team for home textiles. We hope that the extended credit period in domestic market will come to normal level going forward and we should be able to utilize our full capacity.

I had mentioned too in my last con call that the industry is following with the GST council to allow refund of accumulated input tax credit due to inverted duty structure to fabric manufacturers and I was hopeful of getting the same corrected.

I am glad that GST council have since allowed refund of new accumulation of input tax credit from August 1, 2018 this will definitely have positive impact on demand after some time lag. Similarly the benefit of depreciation of rupee has started flowing in. This will improve the exports of fabrics in garments from the country and that will improve the demand for yarn including specialty Melange Yarn in domestic market.

Besides margins in exports of yarn will also improve, we are also increasing our exports of specialty Melange Yarn and that will also add value going forward.

In our new Melange unit of 35000 spindles at RTM Bhawani Mandi which had commenced operations in last 2017, the product mix has started improving and that should also improve our performance going forward.

I am hopeful that with our value-added product mix, we should be able to improve our performance once the demand fully normalizes and we are seeing the improvement in demand and we hope that the things will be better starting from Q2.

Thank you. And now the floor is open for question and answers.

Moderator:

Thank you very much Sir. Ladies and gentlemen we will now begin the question and answer session. We have our first question from the line of Kaushal Shah from Dhanki Securities. Please go ahead.

- Kaushal Shah:** Sir I wanted to find out there is some news that China has again entered the market as far as the buyer is concerned and therefore there is a possibility that even yarn prices will improve. So your thoughts on that and the impact the recent MSP prices and the increase in cotton prices that will be on company like us?
- Bipeen Valame:** Yes. You see the import of yarn to China had increased in January to April period and that has improved the gray cotton yarn prices in India. After that there was some adjustment of the new cotton prices and other things. With the duty of 25% on American cotton by China and their import of cotton will become costlier and that will provide greater opportunities to Indian yarn manufacturers for exports to China and whenever the exports to China improves, the domestic market prices as well as export prices both improves. So for the increase in cotton prices are concerned, yes the cotton prices are at high level at this point of time and that will continue to be so till the new cotton comes. Even after when the new cotton comes the prices are not likely to go down like it used to go earlier on the start of the cotton season, because the government has increased the minimum support price by 28% and therefore I feel that the last season started with about... when the peak season time the prices has gone of popular quality by about 38,000 – 38,500 this time I do not think that the prices are likely to go down beyond 43,000 - 44,000, but that is the cost of cotton and accordingly the price will naturally get adjusted because nobody can buy the cotton at lower rate. So Indian cotton will also have the benefit, Indian cotton will go to China because there is duty on import of cotton from USA. So I think the all these factors are good for the spinning industry as well as the overall Indian value-added industry like fabrics, garments everything which would have certain effect.
- Kaushal Shah:** So sir what is our inventory for cotton, how many months are we carrying just now?
- Bipeen Valame:** We have about two and a half months inventory and by that time new cotton from Punjab should start coming in and for Gujarat cotton we have three months inventory and that should take care of our off season requirements
- Kaushal Shah:** Right Sir. I think that was very helpful. Thank you Sir.
- Moderator:** Thank you. We have a next question from the line of Prerna Jhunjhunwala from Batlivala & Karani Securities. Please go ahead.
- Prerna Jhunjhunwala:** Sir I would like to understand the revenue mix between cotton and non-cotton yarn PU and how has been the demand in both segments polyester blended, Mélange as well as only 100% cotton.
- Bipeen Valame:** Our product mix is 65% in case of synthetic and blended yarns and 35% in case of cotton and cotton blended yarn this is our product mix. So far the demand is concerned as I mentioned in my opening remarks in case of synthetic yarn because of there is inverted duty structure, the fabric manufacturers produce the material and similarly after GST in the retail segment and other places, the money market was very tight and therefore they were short of working capital to purchase the material. So the demand of fabric was less as well as for the synthetic yarn. In case

of Mélange yarn, our major sale is to the garment exports. As the garment exports were contracted due to the strong rupee as well as due to reduction of duty drawback rates and due to other reasons, our sale of Mélange yarn in domestic market and realizations and profitability also got impacted during this period. To counter that we increased our exports of Mélange yarn but now with the depreciation of the rupee, I think the market demand for the garments as well as of the yarn from the garmenters will improve and the original profitability and original demand should start coming in going forward.

Prerna Jhunjhunwala: Sir, Chinese Yuan has also depreciated significantly in the last one month?

Bipeen Valame: Yes this Chinese Yuan has depreciated, but you see so far our Mélange yarn garments are concerned, say the garment exports is mainly to the USA and USA is not supportive to China now. So that should be a challenge but our exports are spread to many countries and I think we should be able to withstand that challenge though that is a challenge I fully agree with you, depreciation of yarn is the challenge and China is also a good player in all types of yarn. In case of grey cotton yarn of course India will be beneficial because of the local cotton. Similarly in case of Mélange yarn also local cotton gives us benefit and there should be good products to in the even competing with the China and America which is the biggest player as I mentioned is not supportive to China imports.

Prerna Jhunjhunwala: So Sir do we export a large quantity like not as a company as an industry. We export a large quantity of blended fabrics to US which would help in blended yarn demand improvement, Since basically our topline for the quarter at Rs. 615 Crores is among the highest in last many quarters except Q1 FY2018 wherein there was a GST push or whatever, but still we are expecting we are seeing that the demand was actually very low?

Bipeen Valame: I think you see with the depreciation of the rupee, as I mentioned that the demand for fabric as well as garment should increase because that was one of the major factors impacting the demand either what the of course the duty drawback and other things, that is going to remain in place and the people have started adjusting with that, but definitely with the depreciation of the rupee, the demand for fabrics and garments will also improve for blended yarn also and that will improve the demand of the yarn also. So therefore the major thing is that the revenue may improve slightly but whatever revenue increasing it will increase to the profitability. You see that our factories are having to the full capacity. Only thing is suppose one buy some yarn is being sold today is Rs.200 and if we start selling it is 205 the revenue will increase marginally but that Rs.5 will be adding directly to our profitability so that is the position.

Prerna Jhunjhunwala: So how has been the spreads now with in how has been the raw material price movement in polyester and viscose, cotton we are fairly aware because it is traded but polyester and polyester viscose are raw material prices and how have been the blended yarn prices movement over the last three months?

- Bipeen Valame:** See the raw material prices of polyester has been moving up continuously because that if the rupee depreciates the raw material prices of polyester and viscose is always based on the landed price of the imported fibre, because the major manufacturer in polyester is Reliance and in case of viscose monopoly is Grasim. So in any case they always we adjust their price based on the landed price. So whenever the rupee depreciates the price increases of this raw material. So because since the rupee were depreciating the price was increasing and correlation I can tell you. So in Q1 last year the price was including of excise duty because there was no GST and I can tell you one thing that after when the GST was introduced in July 2017, the basic price of polyester was Rs.80 and this has been increased today to work 102.50 per kg. So there has been an increase of Rs.22.50 per kg and similarly in case of viscose the rate was 159 at this point of time and I think it is 167 now. Whereas the blended synthetic yarn prices of popular variety is Rs. 230, at that point of time it was Rs.195 plus GST. Now it is increased only to Rs.205 so as other expenses and inputs have also been rising, so once the demand normalizes we will again have the pricing power. The problem was that we had no pricing power, whereas we have to run our factory to the full capacity.
- Prerna Jhunjhunwala:** Correct, okay and do we think that this spreads will come back to normalization in one or two quarters or it will still take time?
- Bipeen Valame:** I think in one or two quarters it should come back to normal level, by the end of Q3, say by the end of December I think it should come to the normal level. There should not be any reason, festival season is there and the people have started adjusting with the new GST regime, government has also changed, return procedure has been simplified. So many things are going on and government the greatest thing is that the government has allowed refund of the accumulation of the duty because we are selling mostly to... our buyers are mostly unorganized. Of course you are selling to the corporate also, but most of the buyers are unorganized and they were at disadvantage because the value addition in their case was comparatively lower as compared to brands. So that is definitely going to improve.
- Prerna Jhunjhunwala:** Sir my last question will be on modernization you are incurring around Rs. 94 Crores in FY2019 on modernization and technological upgradation, what kind of benefit can we see in the company because of this huge expense of around Rs. 90 Crores?
- Bipeen Valame:** This Rs. 95 Crores includes that green fibre project initial say about Rs. 40 Crores is something like that is on account of green fibre, remaining 50 Crores is regular modernization. You see irrespective of any time we never hold up the modernization. Modernization is a continuous process and such a huge capacity and with the value-added products, with the dying capacity. So we keep on modernizing time to time so that definitely improves the efficiency. Say all plants' efficiency, say energy saving then the rationalization of labour force and the quality. So we have to maintain our quality, we have to keep our course under control so modernization becomes necessary.

- Prerna Jhunjunwala:** Correct Sir. I assume 95 is completely towards modernization that is why I have put the question to you.
- Bipeen Valame:** No, it includes about Rs. 40, Rs. 50 Crores on account of the green fibre project because we will be starting the construction this year, we will order the equipment shortly so that includes that.
- Prerna Jhunjunwala:** Okay thank you sir, thank you so much. I am done.
- Moderator:** Thank you. We have a next question from the line of Yash Agarwal from Crest Capital. Please go ahead.
- Yash Agarwal:** Sir again a general question. Last three, four years has been challenging period for the textile industry I was looking the margins were 14% now it is under 10% so which are the major challenges that you face that in the last three four years and are you seeing... these challenges are done with now and we can revert it back to the previous margins that we used to make. Some comments on that Sir?
- Bipeen Valame:** In case of Sutlej, our margins were not down for last three, four years it came down only last year and the first time in 2017-2018 after that – you see up to your still their demonization of the currency it was on the normal margins. Our margins were impacted when the demonetization came for the one quarter then last year Q1 again improved, margins again improve that may not be exactly the same level, because the GST rollout was definite at that point of time. After GST only it got impacted because the entire value chain got impacted so we hope that after this financial year, this financial year may not see the 14%, 15% EBITDA margin but going forwarded I am hopefully that it should come back to the normal level there is no reason for not coming back to the normal level.
- Yash Agarwal:** No in terms of GST impact what was it, it was the demand or what was the duty structure, what was the impact?
- Bipeen Valame:** I will again explain you. Textile business in the entire value chain after the spinning is dominated by unorganized sector. There was no duty on fabrics, so nobody was paying any taxes they were not used to keep any source of report and filing returns and all that. That is simple, they use to do their business. Similarly you see they were in informal economy everybody know this. Now everything has to be recorded and that is also online only. They are not used to this type of business. They say that should we do all these online or do this business. So they were not comfortable that there was a biggest vision. So first of all they were having old stocks. They said that we will clear first old stocks. Secondly up to the return level you see even in the return level they are under GST. So they were not comfortable. So that was a big challenge then there were so many changes again and again on the GST regime and then the inverted duty structure. First it was 18% on yarn it means low cost with accumulation of duty with the fabric manufacturers and no refund was allowed to them. As per the rules, the government prescribed that fabric manufacturers will not get any refund of accumulation of duty. So while they will pay 18% on

yarn, they will pay 5% on fabrics. So their cost was increasing by Rs.6 to Rs.10 a kg of the yarn that means about Rs. 3 to Rs.4 per meter that means 3% to 4% in case of unorganized sector. So they were facing the challenge. And second thing that because there is lot of money in case of export as low cost money – as low cost money was blocked in IGST refund. Those were cleared after six to eight months because there were initial glitches. So all these things because it is a revolutionary changes, GST is a big revolutionary change, entire country comes under one type of tax network and the people are still expecting that once this collection of GST goes beyond Rs.1 trillion, the government is further going to improve this duty structure, they may clock 12% to 18% duty in 14%, 15% they may remove inverted, so those type of uncertainties are there in trade and business. So those were the... because it is a very big challenge so it affected everybody in textile sector, textile sector is taking maximum time to get adjusted because it is dominated by unorganized sector so I think that people have been started realizing that this is going to stay here and they have to adjust it and then they started adjusting and the normal time ultimately have to come, there is no way out.

Yash Agarwal: And Sir has the inverted duty structure has been connected now?

Bipeen Valame: No, you see in the time of when the Gujarat elections were there you might have seen lot of agitation in textile market before so at that time duty on yarn was reduced from 18% to 12% that was the one change which was made at that point of time. But still the impact of duty invertness reduced but still it was going on because from 18% to 12% and then fabric was only 5% with no refund. Now only government has allowed that from 1st as of October duty will be accumulated in case of fabric. Government will give the refund and that is a big relief to the fabric manufacturers across the value chain.

Yash Agarwal: And Sir in terms of raw material cost also cotton prices are moving up. So it is a raw material for us so how is that beneficial for yarn players like... you mentioned that it is good for the industry?

Bipeen Valame: For the industry and I have not mentioned that high raw material cost is beneficial what I mean to say that we have the advantage of Indian cotton. You see it is not that prices are going up only in India, fabric as you know that the prices are adjusted with the international prices. So Indian cotton is still more or less on the parity of the international prices since we have the homegrown cotton, we have the advantage of getting the cotton quickly and transit expenses were saved, freight expenses were saved. If somebody is importing cotton from USA he has to incur a lot of expenses. So their cotton is costly say we are exporting to Bangladesh, China and other so they get the costly because they get at the same export price which they will be buying from here and then the expenses and other things. We get the benefit of homegrown cotton so it is the prices increases for everybody and for all the countries not only for India.

Yash Agarwal: So Sir what you are saying is that the yarn prices eventually will follow up that is a right understanding right?

- Bipeen Valame:** That has been following up with the time lag but golden rule is the demand and supply what I feel that irrespective of any sector if the demand is there price will move or irrespective of any sector, if the demand is less the prices will fall, this is the golden rule. Now the point is that since USA cotton will be costlier and that is the biggest exporter in the world. USA is the biggest exporter of cotton in the world and since China is a biggest importer of cotton so they have the problem China has imposed 25% duty on American cotton, so naturally in China cotton-related manufacturing will get costlier from wherever they bring so because of that Indian manufactures of grey cotton yarn as well as anything with the cotton will get advantage, this is my feeling.
- Yash Agarwal:** Sir for my understanding you mentioned that you have two product mixes basically one is blended or synthetic yarn and second is cotton-based yarn. So in your assessment you know which of the segments will do relatively better in the future in the next one to two years is it cotton yarn or is it synthetic yarn?
- Bipeen Valame:** I think both are in the same boat. Supposed to do better each has its own advantages and disadvantages and both have been doing better. Sometime somebody some sector does little better, sometime some sector does it better but both sectors had been doing well.
- Yash Agarwal:** And Sir on home textile basically what is your strategy and outlook, are you an exporter in home textile or basically used of domestic market and what is the strategy and outlook here?
- Bipeen Valame:** I have already given in my opening earmarks that our major sales is to the domestic market, but we had been exporting about 25% of our products but that is our products of the low and medium category. The product mix we are now revamping, as we have come into contact with American Silk Mill, we have sent their designs marketing. So now we are changing our product mix to medium and upper category and we will be increasing our exports also.
- Yash Agarwal:** One last question. Sir you said that from Q3 you expect some margin off take is that right in your business?
- Bipeen Valame:** I think it has started happening right now say because this Q2 one month has already gone but even in Q2 some improvement will be there and Q3 should have a more improvement, so that there are so many things...and the improvement is started happening.
- Yash Agarwal:** Alright Sir. Thank you so much.
- Moderator:** Thank you. We have next question from the line of Nishna Biyani from Prabhudas Lilladher. Please go ahead.
- Nishna Biyani:** Khandelia ji just wanted to understand when you say 43000 average cotton prices hypothetically for the peak season. What should be the realization for Sutlej to get back to 12% to 14% margins?

- S.K. Khandelia:** No, our margins used to be around 14% to 15%. See the cotton price is now very important for us. Whatever the cotton price is, if the demand is there we are able to pass on the increased cost because why I said that it should be around – should not be less than around 44,000 my calculation is that based on the support price which government has announced and if the prices the government will not allow the prices to fall below that. There is a past in I think in 2008-09 when the market prices started going below the minimum support price CCI has purchased 80 lakhs of the produce that is about more than 25% of cotton produced in that year. So this year also I am sure that the government has already...per my information government has already instructed to CCI that the prices should not fall below the minimum support prices and based on that price of kapas, the price of the cotton works out to about 43,000. So my guess is that and since the China demand will also be strong from India because of the duty of the USA, so there will be good demand of the cotton and the crop is not likely to improve more than the last year and at this point of time though it is still two months to go for the crop to mature., so the cotton prices are not likely to go down beyond this 44,000 or something like that even in the peak time of the arrival. This is my guess.
- Nishna Biyani:** So what should be the realization when you say such cotton prices for the peak season what you are expecting what should be your ideal realization to get back to at least 12% margin Sir?
- S.K. Khandelia:** We have not one count we have so many things, we have so many blend and so many count, so many varieties. You see my simple thing is that my overall margins should go back to at least 15% it is based on the revenue so on different count say in somewhere I may get 20% in some where I may get 10% so it depends, but my guess is that going forward once the demand is normal, it is ultimately the demand, if the demand is there I will be able to pass on whatever increase is there and that increase is not only for India. You see even in exports the cotton prices, our cotton prices are adjusted to international prices and the expectation of international prices are also not lower. For your information I tell you that the next year projection of cotton is likely the production is less and consumption is more about 25 million tonnes will be the production and whereas the consumption will be about 27 million tonnes. So the international prices are also likely to remain strong.
- Nishna Biyani:** So in the past six months if you see international prices have been strong, but our cotton yarn prices improvement is not happening, why is that?
- S.K. Khandelia:** No, it is not correct our prices has been moving in tandem with the international cotton prices, there is always some time gap you see when the rupee was strong, the exports were not very competitive. At that point of time for sometime of course that challenge was there and there was a little gap between our price and that normally always there to some extent. Most of the time our prices are more or less in line with the international prices and even at this point of time say about 48,500 so it is more or less matching with the international prices. The international prices are little higher than this little not much and that is the difference of the expenses or shelf rate and other expenses. Suppose somebody has to import the material somewhere there will be additional expenses.

- Nishna Biyani:** So I am seeing cotton prices are going up with international prices in India right but the yarn prices movement is not in tandem so just wanted to understand that part?
- S.K. Khandelia:** Yes you see the January to April grey cotton yarn prices have improved much more because there was good exporter of grey cotton yarn to China. So it all depends upon the demand and supply. You see in India, there is huge capacity particularly of the grey cotton yarn and we are not in grey cotton yarn we are basically in the specialty yarn mostly dyed yarns. So ours is little different. Our demand supply is little different, say Mélange which is totally different it depends on the demand from the garmenters. So the majority of production in India is the grey cotton yarn and since until and unless there is a good export demand that they are under pressure. So it depends if the demand is good, they will be able to pass on the increased cost and if the demand and which is expected to be good, because of the China demand.
- Nishna Biyani:** When I look at the volumes in this quarter, which is 26,768 what should be Melange volumes in this sir and if you could share Melange realization also that should be helpful?
- S.K. Khandelia:** 35% is the Melange capability and naturally valuation also because the production in case of Melange yarn little lower than the synthetic yarn and other things because in synthetic yarn furnishing production is higher, in Melange it is specifically for the production always remains little lower, so about 35% and value is little higher because of its facility, so 35% is about Melange and 65% is our synthetic and blended.
- Nishna Biyani:** Would you lastly if you could give some guidance on FY2019 in terms of revenues and volumes, which we are expected to do in terms of volume terms?
- S.K. Khandelia:** Volume terms are likely to more or less same because our factories are running to full capacity and if the demand improves or margins will improve that is the only, which we think at this point of time.
- Nishna Biyani:** Thank you sir and all the best for the year.
- Moderator:** Thank you. We have next question from the line of Ritesh Poladia from Girik Capital. Please go ahead.
- Ritesh Poladia:** As I understand this is the first time in many years our both business like synthetic and cotton are facing some of the troubles definitely for several reasons and now GST issue is getting sorted and that will help the synthetic and cotton because of the export realization is going up, is that my understanding correct?
- S.K. Khandelia:** To some extent your understanding is correct. Yes in case of Melange yarn, which is the first time I had seen in last many years because the strong rupee and the exporters because again it is a competitive business worldwide, so exporters of the garments because of the strong rupee they were not able to take the orders because in case of garments orders are for a long time season wise say there are three seasons, so each order will be for the four months, so at that time they

had not been able to take the orders because the rupee has appreciated very much from the earlier level, but now the rupee has depreciated and they are again taking that. So our Melange yarn business depends upon the export of garments. Earlier we are not exporting Melange yarn because we were not able to meet even the domestic demand, so we were not. Only last year we started exporting in a big way and now we have increased our exports also, so we are not fully dependent on the domestic export of the garments so we had different avenues also, so there since we started only last year or sometime before last year so now our export is increasing. Another thing why that our 35,000 spindles of Melange, which we started only beginning of last year was under stabilization, now the product mix of that is getting to the normal level there we were manufacturing ordinary Melange, so all these things are going to add value to our Melange yarn business. So Melange yarn business depends upon the export of garments and another is the world demand. So world is quite big and there we do not think that we should have any problem going forward, but of course it will take some time. Majority share is still to the domestic garments. In case of synthetic yarn also we are exporting lot of materials, but since the rupee was very strong, duty drawback rates were reduced, so export realizations were badly impacted, but now with the depreciation of rupee margins have been started improving I should say ultimately we are concerned with the margins, so margins have started improving with the depreciation of the rupee and whenever the times are tough our efforts also increases this is the general thing, so we have been developing low cost value added yarns and new products and those we have launched in the market in the export markets nearly, so going forward I think those things should also help us.

Ritesh Poladia: In this difficult time you have definitely build amazing job on working capital, but according to you is there any scope of working capital improvement from here on when the demand can improve?

S.K. Khandelia: You are asking about working capital?

Ritesh Poladia: Yes sir.

S.K. Khandelia: Our working capital will be still normal except some extra stock of the cotton, which we always keep during this point of time. Otherwise we do not have any extra working capital engagement at this point of time also and always our cotton stocks are normally high at this point of time so our working capital is well under control.

Ritesh Poladia: On the receivables side do you think that it can go below 40 days.

S.K. Khandelia: No, it is not possible. As we are in the specialty business we have took so many types of fibers imported, domestic you see if the business is ordinary say if you are in the grey yarn then you need not to have so many inventory itself also say about 31% of our product was exported in this quarter, so for export we have to accumulate them at least equal to one container in different, different shapes, so in our case you see there can be little here and there always, but our is well under check and it will not go down much.

- Ritesh Poladia:** Sure. Sir on home textile you said that you need to have some balancing equipment to scale up the quality of the product, what would be the capex for that and by what time you can expect revenues flowing especially for export to your subsidiary?
- S.K. Khandelia:** As I mentioned to you that all those equipments should be in place by the end of this financial year because these are mostly all imported in specialty equipments so delivery time is four to six months. So we are in the process of finalizing the orders and other things, so I think by the end of this year or in the beginning of the next year all those should be in place and the capex is about 25 Crores next month maximum maybe 20 to 25 Crores.
- Ritesh Poladia:** Is that included in this 95 Crores capex or that is over and above 95 Crores capex?
- S.K. Khandelia:** We have dropped certain items out of that 95 Crores, so it will be covered within 95 Crores.
- Ritesh Poladia:** So by the next year the export of home textile to our subsidiaries can be there?
- S.K. Khandelia:** In next financial year, but not by the end of the year. American silk mill is basically different thing. American silk volumes they have made their first launch in June, so their revenue will also start improve in sometime by the end of this financial year or calendar year and they will be making second launch in December earlier they could not make the launches because we have worked it only in last November only.
- Ritesh Poladia:** So home textile export is not to American silk, home textile is having its own market, which is US and Middle East where they are exporting?
- S.K. Khandelia:** They are not exporting to American silk they have their ordinary cotton.
- Ritesh Poladia:** And now you are also beginning for Europe also for home textile?
- S.K. Khandelia:** Yes.
- Ritesh Poladia:** That is all from my side. Thank you sir.
- Moderator:** Thank you. We have next question from the line of Dhruvin Gala from Alpha Alternatives. Please go ahead.
- Dhruvin Gala:** Sir I would like to get your comments on your acquisition of American silk mills, so you say that you have acquired design sales and distribution businesses also, so how it will help Sutlej as a whole and how is the synergies match?
- S.K. Khandelia:** As you know that by 2016-2017 we completed the expansion of our home textile business in India so we wanted our footprint in USA because USA is a very big market and we were trying to get some appropriate acquisition there, so the benefit is that, that we are getting the benefits of their designs, their expertise, their knowledge of USA markets, so we want to put our footprint

on our own and it would have taken much longer time for us, so now we are getting the benefit of their expertise and that will help us in improving our portfolio product mix.

- Dhruvin Gala:** Your product mix in the domestic market also?
- S.K. Khandelia:** Yes it will also improve for domestic market. As I mentioned that we are in the lower and middle category only. Now we are trying to remember our product mix to get out of the lower category because there is a completion from unorganized sector also, so we want to move to the medium and upper category.
- Dhruvin Gala:** That is all from my side. Thank you.
- Moderator:** Thank you. We have next question from the line of Hardik Solanki from Money Bee Investments. Please go ahead.
- Hardik Solanki:** As far as the home textile business is concerned we have reported revenue of 30 Crores, so I can give you a standalone what about the American silk revenue of home textile?
- Bipeen Valame:** American silk mill as you know that right now as per the guidelines we are consolidating on March so we are not having a separate numbers, but just to give you the idea that they had a revenue in the quarter one of around \$2.5 million and as Khandelia Ji mentioned that there will be new product launch in June so we are expecting that they should also get benefit of higher revenue realization going forward because in US typically launch happen one in June the product launch and the second launch happen in October.
- Hardik Solanki:** And sir my second question is as far as the yarn business is concerned we are not seeing margin growth in that business the bottomline will be coming only from the improvement of margins right so the major growth will be coming from home textile only as far as the overall growth is concerned right?
- S.K. Khandelia:** No it is not right. There is one is the volume growth, one is the margin growth. Volume growth we are having our capacity to the full capacity there will be volume growth of the home textile because that is only 65% so there is a scope of 35% more production and that will help the volume also of the home textile. The major growth will be in the yarn segment because 95% is the yarn and 5% is the home textile at this point of time. Going forward home textile will instead of 5% it will be about 8% to 10% and yarn business will be 90% with the growth in the home textile volume, but the margins will improve in the yarn business also. So ultimately the yarn business has to improve to reach to the average 14%, 15% EBITDA, which we need to do and I hope that from next financial year we should start getting it.
- Hardik Solanki:** And Sir what part of home textile business is coming from job work?
- S.K. Khandelia:** Job work you see since we have the sort of the market as I mentioned that the people have started asking for more, since we start expanded our capacity from 2.25 million per year to 9.6 million at

a time because it was not possible to expand again and again and plan in that way. So initially we had the problem that naturally it takes time and sampling at the strict market and other things. So at that point of time it was about 30% was the job work, but that time we started. After GST as I mentioned due to credit and other restrictions we consciously decided that we will not increase that our credit exposure and we reduced the volumes, so once that comes back and going forward of course we have not put up the factory for the job work, ultimately we have to get on our own and I hope from next financial year we should be able to run our factory of home textile for our own production.

Hardik Solanki: So sir any expenditure we are looking for brand building our own brand Birla, which is already there, but we are not using?

S.K. Khandelia: See at present our sales is through distributors of course we had the intention to have our own brand and to have different marketing values, but at this point of time immediately we have no plans for say for next year, till next financial year we do not have that plan we will see that first we have to utilize our capacity to the full extent, we have to move to the medium and higher category then we will think of launching our brand and other thing, but we have the intention to do that going forward.

Hardik Solanki: Thank you. That is it from my side, all the best.

Moderator: Thank you sir. Ladies and gentlemen that was the last question. I now hand the conference over to Shri S.K. Khandelia Ji for closing comments. Over to you sir!

S.K. Khandelia: See it is a good session and I think with the question and answer session many things will be clear about surplus and as I mentioned that these are the challenging times and which are getting over now gradually and from next financial year we hope that we should be there on the normal EBITDA range of 14% to 15%. So my last remark is only that, that it is fair that after all the dark clouds there is sunshine. We believe that all the dark clouds are fading away and we see a revival in demand going forward and things will return back to normal level. Thank you very much.

Moderator: Thank you very much sir. Ladies and gentlemen, on behalf of Sutlej Textiles and Industries Limited that concludes this conference call. Thank you for joining with us. You may now disconnect your lines.