"Arvind Limited

Q3 FY '24 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to the Arvind Limited Q3 FY'24 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 the 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. Satya Prakash.

Satya Prakash Mishra: Thank you, and a very good afternoon everyone, Let me start by wishing all of you a very Happy New Year 2024 and a great year ahead. Thank you for taking your time out again for participating in this call to discuss the third quarter results of Arvind Limited for the financial year '23-'24.

Joining me today is Mr. Punit Lalbhai, Vice Chairman and Executive Director; Mr. Jayesh Shah, Executive Director and Group CFO; Mr. Nigam Shah, the Chief Financial Officer of Arvind Limited.

Most of you may be aware that the retail sales across the world continue to remain muted. However, the demand for our products have begun showing improvement. The brands and retailers have completed destocking the inventory in the recent past.

On the input cost side, cotton and input prices continue to be range bound and towards the lower end of the spectrum. Looking forward, prices of crude oil and derived products will be an important piece to watch out for. More crucially, we'll be closely monitoring the development in the Red Sea area as a significant part of our exports go through Suez Canal, and disruption there have already driving the container prices and shipping times up.

Before I come to the financial performance for the quarter, I would like to share a few noteworthy milestones that were achieved in the quarter gone by. I'm happy to inform you that as part of latest S&P DJSI Global Sustainability Assessment ranking, Arvind Limited was placed number 1 among Indian companies and number 7 globally, which was improved by four places from previous year. This is a testimony of our long-standing commitment towards environmental sustainability and a continuous endeavour to be a social responsible corporate citizen.

Towards this, I'm also pleased to share that a new initiative was launched called Global Water Innovation Centre for Action, as we call it internally, GWICA, which was inaugurated in our Santej Campus, Ahmedabad. This is cofounded along with one of our key customers, Gap Incorporation. This will provide an open-source platform that brings together expertise and audience through showcasing physical models, simulations, demonstrations, seminars and events and hosting technology visits.

Coming on to the business front. We signed a MoU with Indian Navy recently to supply advanced uniforms. The MoU is an important step towards scaling up supply of high-quality and innovative products to our armed forces. We expect the current run rate of INR100 crores to expand multifold in the years to come. Defence business is poised to grow to become more than 15% of human protection by the year 2025.

Coming to our third quarter results, quarter three FY'24 revenue stood at INR1,888 crores. This was 5% lower than quarter three FY'23 and 2% lower than on a sequential basis. This is despite a healthy volume growth during the period, especially in our advanced materials section.

EBITDA during the period grew by 16% and stood at INR216 crores, which translates into an overall EBITDA margin of 11.4%. The EBITDA margin during the period improved by 200 basis points on a year-on-year comparison. Profit after tax during the quarter grew by 22% on a year-on-year basis to reach INR92 crores.

Overall, textile volume was similar to last quarter, though denim volumes saw seasonal decline and clocked about 10.3 million meters. This was more than offset by a strong growth in woven section, which sold about 32.9 million meters during the quarter. Fully formed garments during the quarter was about 7.7 million pieces.

Overall, textile revenues stood at INR1,426 crores, which was 2% lower than quarter two and 8% lower than quarter three of the previous year. Textile margins inched closer to 12% mark, as we have earlier suggested and stood close to 11.8% in the current quarter.

EBITDA margin improved by 140 basis points compared to the same quarter last year. Advanced material division continued its growth trajectory and delivered a volume growth of 20% plus during the quarter. Although the revenue growth was limited to 2% on account of a sharp price deflation in the raw material prices, particularly in industrial section.

Revenue for this segment on overall basis for advanced material stood at INR345 crores during the quarter. EBITDA for the same period was INR52 crores, translating into an EBITDA margin of 15.2%, which is aided by softer input costs and operating leverage.

EBITDA margin during the same period improved by 150 basis points on a year-on-year comparison. Based on our current order book and momentum in our inquiry pipeline, we are confident that quarter four of FY'24 performance to show further improvement and help deliver a very strong second half of FY'24, as we have already guided in earlier call.

Overall net debt stood up at INR1,390 crores as at the end of the current quarter. A small increase is on account of higher working capital usage during the quarter gone by. We expect to exit the financial year with a long-term debt of close to INR400 crores.

This concludes my opening remarks. Before we open the lines for questions, I request Mr. Punit Lalbhai to share his perspective on the markets, relevant business environment and our performance during the quarter. Over to you, Punit bhai.

Punit Lalbhai: Good afternoon, everyone. It's a pleasure to interact with all of you today. I think Satya has spoken eloquently and deeply about the environment and the results. So, I think I will sort of give my flavour to things in the questions. So, let's use the remaining time we have for questions.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Prerna Jhunjhunwala from Elara Capital. Please go ahead.

Prerna Jhunjhunwala: Hi, Thank you for the opportunity and congratulations on a strong set of numbers. I had a few questions. First, the textile margin improvement that has come at 11.8% overall. Could you help us understand how the margins are moving in the fabrics and the garments business and how sustainable they are going forward from a long-term perspective?

Punit Lalbhai: Thank you. I think there has been an improvement in margin due to efficiency mostly. As you know that our revenue number has been lower than last quarter – quarter three of last financial year. And that is mostly on account of most of the Revenue deflation being passed on. So, I think the team has done a great effort in sort of expanding the margins, and we expect if all else remains equal in terms of no major disruptions in the world and demand, we foresee that we should be able to retain most of these gains.

Prerna Jhunjhunwala: Okay. Just a follow-up on this. How much of this could be contributed to the raw material deflation benefiting the fabric business and...?

Punit Lalbhai: As I just mentioned that most of it is on account of efficiency improvement, better customer mix. So, all factors that are not very transient in nature. The raw material deflation may have, of course, slightly promoting effect. But as in our industry, which is very competitive, most of these gains are difficult to maintain over a long period of time. So, most of that gets passed on almost immediately.

Prerna Jhunjhunwala: Okay. And in the garmenting business, how are the margins moving?

Punit Lalbhai: So very similar sort of scenario playing out in both places. I think the journey in garments is evolving as we speak. We are improving on operating parameters. Some of the first factories where we have started the improvements are showing very positive signs of efficiency improvement, etc. So, the directionality is positive and along expected and previously guided lines.

Prerna Jhunjhunwala: Okay. And sir, my second question is on capex. How much of the capex have been concluded till nine months and for full year likely to be done? And what can be the capacity increases, if at all, it is happening in this year and next year?

Punit Lalbhai: So definitely, we will have some capacity increase on the garment side next year. And we have initiated some capex. I mean, we would have completed around INR200 crores by Q3 and another INR50-crores-odd should get completed in the final quarter. So, we should -- of the INR600 crores that are planned across two years, we should be crossing or coming very close to INR250 crores, INR260 crores as we enter the next year.

Prerna Jhunjhunwala: Thank you. I'll come back to the question queue. All the best.

Moderator: Thank you. The next question is from the line of from Suryanarayan from Sunidhi Securities. Please go ahead.

Suryanarayan: Am I audible, sir.

Moderator: May I request you to use your handset, sir, please?

Suryanarayan: Okay. So, a couple of questions, sir. One is that the new initiatives what we have seen from your side that now you have inked some MoU with the Gujarat government around INR3,000 crores. So, can you just like broadly detail which are the areas we will be focusing on because this investment was not planned here? Yes, that is first question.

Punit Lalbhai: Yes, this is the group level kind of investments. Not all of this is going to happen through Arvind Limited. There are other group companies that will also be doing investments, and this is for a much longer time horizon as well. So, whereas we have planned the INR600 crores over two years in great detail, there are additional plans that we will -- as they firm up, we will be declaring even in Arvind Limited.

But as of now, I think we should stick to the INR600 crores over two years and then maybe another INR400 crores as we move forward, but those INR400 crores are still under evaluation and sort of vetting and we have intention to invest more, but those have not yet been finalized. So, it would not be correct to include them in the next two years kind of time horizon.

Suryanarayan: Secondly, sir, in the garmenting division. It was expected that now in the second half, sometimes we could be generating volumes. But that is -- that has not come yet. So when can we expect the revenues to improve significantly?

Punit Lalbhai: So, the volume increase has -- I mean there's a marginal volume increase in Q3. But Q4, we should see a better volume increase going forward. And as we had guided earlier, we should be reaching 85% kind of our capacity by the year-end. So -- and going into quarter one, maybe even higher.

So, we are seeing good order pipeline going forward. So, while we also missed some of the garmenting turnover this quarter because of a few missed containers in Red Sea, not very high numbers, but the number could have been slightly better had this issue not occur?

Suryanarayan: So, you have mentioned in the presentation that you have very good order book at present. So, can you quantify the order book?

Punit Lalbhai: So, I think we should look -- we should see the improvement in almost all segments in Q4 over Q3. Generally, our guidance has been in subsequent quarters we should see a slightly improving trend, which is the way we are going. Quarter four could be slightly better than quarter three on all volume parameters.

Suryanarayan: In the AMD space, sir, there is some slowdown in the industrial segment, although other segments are doing well. So when can we expect the industrial segments to pick up even as we are getting good orders from the defence space? So, if you can quantify some data, some order demands from the defence side. Because recently, we have done that. So that will be in protection, I believe protection area, so protection clubbing. So, what kind of order book we can expect from the defence, sir?

Punit Lalbhai: So, in the future, it can be very large. Right now, it is about 10% to 15% of our overall human protection business. But we feel that this is -- with Make in India and indigenization drive, we feel that this area can be very significant in terms of our revenue. It would be a little premature to guide exactly what number by when. But I think based on all the sort of product development and MoUs that we have signed and a few orders that we have already received, we can very confidently say that we are on the right path here.

I think as far as industrial fabrics is concerned, happy to state that quarter four is looking relatively better than this quarter, which was sort of expected to be low on industrial. But demand has started picking up in quarter four.

Suryanarayan: So, the 20% CAGR that has been guided, that will be maintained on a sustainable basis going ahead as well?

Punit Lalbhai: So, volume based -- on volume basis, we are already at 20% CAGR if you look at the overall AMD put together, and we should maintain our profit in Q4 as well.

Suryanarayan: Okay. Thank you.

Moderator: Thank you. Our next question is from the line of Vikas Jain from Equirus. Please go ahead.

Vikas Jain: Yes, thank you so much for the opportunity.

Moderator: Sorry to interrupt, sir. May I request you to use your handset, please, sir? Your audio is not clear, sir.

Vikas Jain: Is it better now?

Moderator: Yes, sir. You can go ahead.

Vikas Jain: So, the first question is with respect to our denim side performance. So, while the volumes was on the muted side, what according to you has been the reason for the underperformance? Is it like the domestic side not doing well or the exports also not doing well? What had led to a sharp dip on a quarter-on-quarter basis?

Punit Lalbhai: So, there is a huge seasonality in denim. So, quarter three is generally very weak in denim. Because when we are in quarter three, the season -- the buying -- there's a lull in the buying for three, four months because denim is generally a heavy product. So, the summer -- the quarter three is a very good time for summer clothing. So, spring/summer clothing is bought during quarter three. So, every quarter three, if you look at the pattern of denim, you will find three strong quarters and quarter three always weak. So that trend is playing out.

But if you will look at the overall average, you will see an increasing trend. In quarter four, we have a reasonably strong order book. So even denim is moving around expected lines, okay, from...

Moderator: Sir, we are unable to hear you. May I request you to unmute the line, sir? Ladies and gentlemen, please stay connected while we reconnect the management.

Punit Lalbhai: Yes. I think our call got dropped. Apologies for that. I don't know whether the -- how much you heard.

Vikas Jain: I think denim quarter four.

Punit Lalbhai: Yes. So, we were talking about denim quarter four. The denim quarter three was down on expected lines because quarter three in denim is a low season. So, if you study the historical pattern of denim, always quarter three is the lowest quarter in the year. And quarter four, we have a healthy order book. So, I wouldn't say the denim numbers here were either a surprise or of great concern, we should see a good recovery in denim in quarter four.

Vikas Jain: Got it, sir. Sir, second question is with respect to the realizations across the segments. As far as your estimate, where are we in the progress or in the sector where the realizations are about to bottom out? What do you believe is expected in the upcoming based on the order book? How do you see the realizations stemming out?

Punit Lalbhai: Our biggest raw material, which is cotton and yarn, cotton yarn. I think that now has reached quite a bottom because the cotton prices are at minimum support price already now. And CCI has already started buying cotton, which is an organization that will support farmers when prices go to minimum support price. So, fall below this is very unlikely. It can happen, but it is very unlikely.

Also, ICE has gone up slightly. So currently, Indian cotton is in export parity. So even that should keep up the prices at this level going forward. So, I don't see huge reduction in raw material prices going forward, especially since cotton seems to be bottoming out. Of course, other commodities can behave differently based on geopolitics, based on oil price, and one we'll have to keep looking out for that. But as of now, it's looking like that the realization should have bottomed out.

Vikas Jain: Sure. Sir, with respect to woven as a segment, so we are not incurring any capex there. What, as per you, is the maximum in terms of woven that we can do here, either positive or with the…?

Punit Lalbhai: So, it's not as if we are not incurring any capex there. I think in the fabrics piece, overall, we continuously invest in innovation. So, while the absolute volume doesn't go up, what happens is margin unlock, what happens is more strategic alignment with customers, efficiency improvement. So, for all of that, we continuously add new technology. We try and make our supply chain faster and more responsive. So, all those investments are constantly happening.

If you completely withdraw from investment from any category, then over a period of time, your relevance goes down. So, you have to keep investing some amount there to remain relevant, which we are doing. We are constantly adding newer technologies, newer finishes and better customer centric models. So that investment is on, and that continues in wovens as well.

Vikas Jain: Understood, sir. All right, sir. Thank you so much. I'll join back to queue.

Moderator: Our next question is from the line of Sagar Parekh. Mr. Sagar Parekh, please go ahead with your question.

Sagar Parekh: Yes, hi. Good afternoon, everyone, and congrats on good set of numbers. So firstly, on this Red Sea canal disruption. I wanted to check what is the exact -- or broadly also, if you can give us some kind of impact on the numbers for Q3?

Punit Lalbhai: About INR20 crores, INR25 crores of revenue perhaps spilled over into Q4.

Sagar Parekh: Because I was under the impression that most of the exports happen on the FOB basis. So then that impacts...

Punit Lalbhai: That's why it's such a small number. Because we still have some DDP shipments, so our garmenting is -- some of it is DDP. Some of our advanced materials business, particularly is DDP.

Sagar Parekh: Okay, fair enough. But this problem seems to continue even for Q4, right?

Punit Lalbhai: Yes. So, there will be a readjustment in terms of the expected delivery. So, when the problem first happens, the maximum disruption happens and then the world adjusts to the newer timeline. So, I don't see this happening every quarter. I think then that becomes part of your planning cycle.

Sagar Parekh: Understood. And on the second question on the advanced material, you mentioned that defence is about 10%, 15% of human protection revenues currently. I'm assuming that would be largely all domestic driven, right, for our domestic Armed Force?

Punit Lalbhai: We do some export defence business as well. So, we supply some uniforms to friendly countries in the Middle East, etc. But most of the technical uniforms, we reserve them for -- we reserve the high-technology stuff for generally the Indian Army and other Indian Armed Forces, including Navy, Air Force.

Sagar Parekh: Understood. So, this 200 -- so you have a quarterly run rate of about INR200 crores from human protection, broadly INR190 crores, INR200 crores. 15% of that is approximately INR25 crores, INR30 crores on a quarterly basis. And that you are saying with this MoU, recent MoU that we signed with Indian Navy, that should significantly scale up going forward?

Punit Lalbhai: That and other sort of efforts in the pipeline should on a medium-term level. So, defence business is never sort of even sort of business. It's a patchy business. Because when the tenders come out, that's when you get spikes and then you have lull period. So, it's important to look at the defence business over multiple quarters, multiple years, but the directionality of that business will be up.

Sagar Parekh: Understood. And I think in the opening remarks, Satya mentioned this INR100 crores run rate. Was that for advanced materials division revenue run rate for the like INR100 crores per month? Was he referring to that?

Satya Mishra: Yes. That was the reference.

Sagar Parekh: Okay. So INR100 crores, you said would significantly scale up is what I heard. Correct me if I'm wrong.

Satya Mishra: Yes. That is our estimation going forward.

Sagar Parekh: So that would be a function of this Indian Navy order or anything else also?

Satya Mishra: This includes that, yes.

Punit Lalbhai: No. So generally, I mean, if you look at the overall AMD, our attempt is to grow this business 20% plus year-on-year, which is how you should think about it, I think that's the best way.

Sagar Parekh: Yes, but 20% on the volume side would not probably lead to 20% on the revenue side because of the deflationary.

Punit Lalbhai: On a medium term, it should. I mean all these things will -- I mean you may have quarters where you have a raw material depression, you'll have quarters where it will go up again. So broadly, that would be the effort that both volume and revenue should over a period of time sort of converge to the actual growth rate.

Sagar Parekh: Okay. Fair. And my last question would be on the debt side. So, we are at about INR1,390 crores. Where would we like to see our debt by the end of the year? You mentioned INR400 crores of long-term debt. But over -- I mean for the full year at net debt level, where would we be?

Punit Lalbhai: I think we are very now comfortable with debt. So, our endeavour is to now sort of focus on growth. We want as little long-term debt as possible because there's a repayment liability generally there. And working capital debt is a function of how your business is increasing. So, it's generally backed by receivables or inventories that is current. So there, we don't want to artificially put any restrictions on how we do business.

So, we don't want debt to now start becoming an impediment to growth. I think we are in a very comfortable position. And what we will focus on is having very good capital efficiency. So, I think over the last couple of years, in fact, this is an area we've done well. We've improved the turns of the overall business significantly.

And we should -- we will endeavour to keep the turns at a high level, which will oscillate a little bit around, depending on how we see raw material and how much we want to cover for strategic reasons. So, a few quarters, it may be higher or lower depending on those strategic decisions. But we would like to maintain a very good efficiency and hygiene on capital efficiency.

Sagar Parekh: Understood. But Q4, broadly capex is INR50 crores. Your EBITDA, I'm assuming would be higher than Q3 because of the strong outlook given. So, then your -- technically, your debt should be lower by that amount minus the interest cost?

Punit Lalbhai: Broadly, yes. We may decide to go -- I mean we may decide to hold a little more cotton basis how the future is looking. Upside risk is higher than downside risk. So, all of those things we will consider. So, on working capital side, things may not be so mathematical. But on long-term debt, you're right.

Sagar Parekh: Okay. How much is the long-term debt right now?

Satya Prakash Mishra: It's INR433 crores so far in Q3. And maybe we are expecting to close around INR400 crores.

Sagar Parekh: Great. Thank you for answering all my questions. That's it from my side.

Moderator: Thank you. Our next question is from the line of Kaustubh Pawaskar from Sharekhan by BNP Paribas. Please go ahead.

Kaustubh Pawaskar: Yes, thanks for giving me the opportunity. Yes, taking forward the Red Sea…

Moderator: Sir, may I request you to use your handset, please?

Kaustubh Pawaskar: Yes, just a second. Hello? Is it better now?

Moderator: Yes, sir. Please go ahead.

Kaustubh Pawaskar: Yes. Thanks for giving me the opportunity. I just want to continue with the Red Sea issue question. So, you just mentioned that there won't be any significant delay in shipments or impact on the shipment as such. But because of the increase in the freight cost or shipment cost, will it have any impact on the margins in the quarters ahead because we have been hearing from some of the companies that there might be some impact on the margins in the quarters ahead?

Punit Lalbhai: So, I think there could be some indirect impact because the overall increase in the supply chain cost, whether it is borne by us or the customer, it will have an indirect effect. For us, we see sort of good news in a way is that most of the freight is on the account of the customer. Only a few accounts, as I mentioned earlier, our DDP, where the responsibility of freight and thereby long-term lock-in of freight prices is something that we do for a very small quantity of our business.

So, on that small quantity, you are right, it might impact margins based on our ability to negotiate because this issue is not just for us, the whole world is suffering from it. So, to that extent, some of this could be passed on.

But overall, yes, you are right that generally in the world, this will create a negative headwind. But because our contracts are mostly FOB and very small part of the business is freight on our responsibility, it should not have a huge impact.

Kaustubh Pawaskar: And another question I just want to ask that if this kind of situation continues for a while, will it have an impact on the business cycle? Because last time, when there were delay in shipment, there was the inventory piled up with retailers globally because they missed the cycle and the scenario was like they were focusing on reducing the inventory and then trying to build up on the stock. So, whether such kind of scenario?

Punit Lalbhai: The short answer is no, and I'll tell you why. Because I think if you look at that inventory build-up scenario, it happened because of many things. One, first, the markets were extremely buoyant. So, all the buyers expected the sales to be much higher. And then there was a geopolitical event in the world that then sort of torpedoed the sales.

So based on past expectations in our industry, people buy in advance. So that was actually the main cause of inventory pile-up. The second cause of inventory pile-up was not so much higher rates of shipment or higher lead times, it was uncertainty of getting the freight. And it was you couldn't predict the times just because of COVID disruptions, that ports -- pile up of ships at ports and unable to clear, unavailability of lines that was not predictable. So that's why people bought way in advance of their need.

Here, the shipping times are very predictably increased. I mean now instead of going through Suez, they are going through the Horn of Africa. So, you know what that extra time is. So that can get very easily accounted for in the planning cycle, vis-à-vis, what was happening at the previous instance, which was high unpredictability. That is not there right now.

So, I would be very surprised if this leads to an inventory pile-up. And I think people have become very, very conservative after that negative experience. So now in fact, we get a lot of requests to purchase orders that were not planned, and people are erring on the side of caution rather than being aggressive right now.

Kaustubh Pawaskar: Right, sir. Thanks for the understanding and That was very clear about it. Just last one on the demand environment. How it is shaping up both in domestic as well as the international market?

Punit Lalbhai: Very slow improvement. That's how I would like to describe the market scenario. The improvement that we've been guiding is there. However, the overall gloom due to the world not being in a very healthy geopolitical situation was happening all over. That doesn't lead our industry to be very encouraged generally.

So, the atmosphere is cautious. US is doing -- US had a decent holiday season. U.K. and Europe had better-than-expected numbers. So -- and inventories seem to be clear. So, this is very good news considering the overall situation the globe is in. So, we should see this gradual inch upwards, all else being equal and no other major negative news coming in the world.

Kaustubh Pawaskar: Thanks for the understanding and all the best for future quarters.

Moderator: Thank you. Our next question is from the line of Monish Ghodke from HDFC AMC. Please go ahead.

Monish Ghodke: Thank you for the opportunity. So, what kind of payback period and return ratios we target when we plan our capex?

Punit Lalbhai: So generally, our capexes are planned at a potential of achieving and crossing 20% return on capital employed. And generally, it takes three years to four years for that level of return to start coming from an investment.

Monish Ghodke: So, on an incremental basis, like whatever capex we are doing, so we should get a 20% ROCE maybe two, three years down the line, right?

Punit Lalbhai: Yes.

Monish Ghodke: Okay. Thank you.

Moderator: Thank you. Our next question is from the line of Bajrang Bafna from Sunidhi Securities. Please go ahead.

Bajrang Bafna: Yes. Congratulations for a decent set of numbers despite not very encouraging environment in domestic as well as global markets. So, my question is little strategic. Because if we try to understand the global scenario right now, we have one side Bangladesh, which is a dominant player in garment side and a lot of wages issues, which are occurring in that country right now. And there have been media articles which are talking about the wages have gone up by 2x, they are demanding 3x. So, if you could just enlighten us what exactly is your take since you are tracking that particular area very closely? So, what is your sense?

And second is we are also simultaneously seeing a couple of FTAs, which have been signed before you get to couple of EU countries, and more signs are pretty encouraging that more FTAs are going to be signed. So, one side, Bangladesh is getting a little uncompetitive when it comes to garmenting, vis-à-vis, India? And second is the opening up of those FTAs with the EU market. So, if you could just guide us your sense on a strategic side, how that particular thing is going to impact Arvind per se will be really appreciated.

Punit Lalbhai: So, you are right in your observation. So, I think Middle East and Australia, FTAs have been encouraging, and our business in those regions is increasing as we speak. I think the bigger markets, which are US and Europe, still Bangladesh, despite their wage increase, will always have an advantage because 10%, 15% -- 10% to 12% advantage is a massive advantage.

However, for markets where Duty Free access is not there, India and Bangladesh are fairly now -- I mean we can compete with Bangladesh. So, there is no huge advantage to being in Bangladesh. The advantage of Bangladesh is the established ecosystem. So, their entire textile value chain is geared towards garmenting, whereas ours has been historically geared towards yarn and then fabric. And we are in the process of building the garmenting ecosystem.

When you look at that in the medium term, today, Bangladesh and to a similar extent, now Vietnam, both areas that have benefited a lot from the decoupling of -- from China, are already at very high levels of, what do you call, saturation. So, buyers are looking for an option to these countries because nobody wants all their eggs in one basket.

And the challenge they face is they don't find enough baskets to put their eggs in. So, India has the opportunity to become that big basket because we have the entire supply chain. We have massive labour force. And most importantly, we have a very vibrant domestic market also.

So, from all those counts, if we can create the right kind of garmenting backbone going forward, strategically, India is in a great place. And it doesn't need to, like Bangladesh or Vietnam, depend on exports. We have a great domestic market and many product categories today are being imported from Bangladesh, from even still China, from the Southeast Asian countries, especially in MMF, and all that opportunity is there for India to build supply chain internally for.

Bajrang Bafna: Okay. Got it. So, any inquiry level increase that we are seeing in last, let's say, two, three months from a couple of MNC side coming to our country, and especially to our company?

Punit Lalbhai: So, I think the conversations since this US-China conflict and generally a decoupling from China, the forced labour issues in cotton, since all of that started, global brands have, for the last three, four years, been exploring India as an alternative destination.

India has already benefited. That benefit could have been much higher had we a very strong garmenting sort of infrastructure. But now it's being built. So, to the extent that we can build it, there are orders already, and that is why -- so in the long term, I expect more and more to come to India as we keep building the capacities.

But quarter-on-quarter, the overall global demand picture will also moderate it or accelerate it based on what the scenario is. Right now, we've come from a very, very soft demand situation to an improving demand situation. But the strategic conversations have started a long time ago, and the world is waiting for us to actually sort of build the infrastructure to the extent that they want.

Bajrang Bafna: Got it. And sir, just on the Red Sea issue. How have been the January month? Because a lot of companies are citing that the lead time has increased. I know you have already answered it. But just...

Punit Lalbhai: Time has definitely have increased, and our customers have to factor in those lead times. And most of them take the responsibility of the sea freight, and so they have already factored in all of that, hopefully. But the situation is dynamic. I mean if the situation escalates or worsens, it may have further unforeseen impacts.

But I think impact of what has already happened has been factored in, and there is a higher lead time of scaling because now people are going -- majority of the customers are choosing to go around Africa rather than through the Suez.

Bajrang Bafna: Okay. So, our shipments are more or less in line in January month, that means after broadly March.

Punit Lalbhai: Broadly yes.

Bajrang Bafna: Got it. Thank you very much and all the very best.

Punit Lalbhai: There is a cascading effect, but by March, that should get sort of factored.

Bajrang Bafna: Got it. Thank you, and all the very best sir.

Punit Lalbhai: Thank you.

Moderator: Thank you. Our next question is from the line of Iqbal Khan from Nuvama. Please go ahead.

Iqbal Khan: My question is pertaining to the margins. I know you've already answered, but I just wanted to have some more sense on that. Sir, could you please elaborate when you say your margin improvement was because of better customer mix and higher efficiencies, could you please elaborate more on that?

And secondly, if you can guide us in your textile segment. Out of the three divisions, woven, denim or the garment, which one is kind of a high-margin product for you? So basically, the margin mix amongst the textile division. Second question I had was about how the January month is going on, but you've already answered that. So, if you can just address my query on this margin front and how sustainable it is going ahead?

Punit Lalbhai: So, margins improve because your operating efficiencies improve, right? So, if you are able to get more production for the same labour pool or if you are able to get better throughputs on your machinery or if you are able to negotiate your cost down better than competition or better than you've been able to in the past, our margins will expand. And so that's what I mean all the efforts.

So, the last couple of years, we've been -- so our first point of call was to make the balance sheet safe, where we have been very conservative. We focused on reducing debt. Now we started investing in the business. And our first sort of order of investment is in two things. One, increasing garment capacity. Two, improving AMD. And three, making investments to get better efficiency, better margin, more differentiation, all of that.

So now that capital is being allocated for these three things, it is an outcome of that, that we are seeing AMD grow fast. We are seeing garment capacity is being created, and we are seeing better margins.

Iqbal Khan: Understood. Sure. Thank you, sir. And congratulation for the good work numbers

Moderator: Thank you. Our next question is from the line of Nilesh Jethani from Bank of India Mutual Funds. Please go ahead.

Nilesh Jethani: Yes, hi. Good evening, and thanks for the opportunity. My first question was on the AMD side. So wanted to understand your aspirations to grow this at 20%. So, what gives you confidence of growing this business at 20%? And with the current level of capacity, what kind of utilization are we today? And what is the optimal utilization which can be achieved? Then there are, sir, what can be the margins that can be assumed in the best case or our optimum capital utilization scenario?

Punit Lalbhai: So, I'll answer it backwards. So, in terms of margins, we should continue this kind of trajectory on margin. The reason why the margins are not going to increase dramatically more is because with scale, we -- the margin on the existing business may expand. But we are adding newer capacities as we speak, right, to be able to reach that 20%.

So, it takes some time for the newer capacity to deliver the same efficiency, same profitability. So, there will always be a mature part of the portfolio, and there will always be an emerging part of the portfolio, and that's why the margin should remain similar, but the growth should keep coming.

And in terms of capacity utilization, you can say the -- we are at high utilizations across the board, except in industrial, where the demand has been soft, but we are also creating the capacities quarter-on-quarter basis. So that to allow for that growth and have confidence that, that type of growth is possible. As far as demand is concerned, each of these segments have a very large global potential. So, we are nowhere close to achieving saturation in terms of that demand. I think it's more a customer acquisition capability and capacity creation capability that we have to sort of do and which we are doing.

Nilesh Jethani: Got it. And with the current set of customers and current order book, however you defined it, we wanted to understand the next two, three years -- two to three years, we are confident of driving a 20% kind of growth.

Punit Lalbhai: Yes. That is -- that will be our endeavour. Of course, as you get further out, the clarity is less. But looking at next year, that is our internal plan that is being worked out is to be able to achieve that kind of a number.

Nilesh Jethani: Got it. So, I understand the human protection piece of the business. But on the industrial and the other side, can you just give me a few examples what are the key products or what we do on that area? Sorry that question is very basic in nature, but I would like to have a small understanding on that.

Punit Lalbhai: Sure. Like we arrange for most of our investors, we'd be very happy to even arrange plant visit where you can see product, etcetera. Whoever wants can, of course, contact Satya and arrange it. Just to give you a brief snapshot. In Industrial, we focus mainly broadly. I mean it's more detailed than this. But broadly on filtration products, air filtration, liquid filtration and conveyor belting.

And on composite side, we focus on glass and carbon substrates, which are for structure. And then we have forward integrated into making parts, where you impregnate resins into these glass and carbon fabrics to make different types of end products. One is sports, where we make rackets out of carbon fibre for Badminton and Tennis.

Then you have mass transportation where we make panels, driver cabins, toilets for Indian railways, for metros. Then we make the fabric that goes into windmill blades, and we make various industrial and structural products out of this composite material. So broad canvas in composites, catalysed by the ability to weave and knit glass and carbon fibre.

Nilesh Jethani: That was really helpful. My third question would be on the textile piece. So, what broad understanding I have is that last year, because of this China Plus One and Bangladesh under some problem, lot of Indian companies got that advantage where even the export the volumes were largely flat, so on an international level.

But lot of Indian companies would have gained market share, and that led to that higher delta in the top line. So, wanted to understand whether this delta will continue for Indian players and especially for players like Arvind going forward? Or that has already played out. Now it would be a gradual growth? Or what is your sense on that?

Punit Lalbhai: No. So, China is such a large part of the overall international export business that the decoupling has just begun, you could say. And a lot more volume should come to people who are able to cater to that kind of demand. So, I think, as I mentioned earlier, the challenge in India is to be able to build the capacity, especially on garments. We are very good on fabric and yarn. We are already dominant in the world there. So, our challenge is to build garment capacity, both for domestic and export customers.

As long as we do that, there is still plenty of opportunity and people will want to come to India because other garmenting destinations are getting saturated. So, I don't think that this is over. I think the opportunity for people in India. See, a lot of brands are also coming to India. So, everybody will want India for India manufacturing. That trend will continue way into the future.

And for export also, I think if we get our labour productivity right, if we get the automation right, if we get the capacity build-up correct, if we are able to sort of have best-in-class delivery and quality like China used to have, we should be able to do a lot more business. And we need to constantly innovate. Why China over the years, despite having almost twice the wages and pretty much higher cost on all sort of parameters, be it utilities, be it chemicals, be it power, be it steam, is still having such a dominant position in the world, it's because they've kept innovating on the product.

And I think the government's push to promote MMF, because most of the world is pivoting on cotton, India is the leader. But on MMF, where the innovation quotient is much higher, we are just beginning that journey. So, as we go through that journey and as we achieve a high level of innovation on MMF, I think we should be able to continue this journey that is not dependent on another country losing out, but us charting our own way.

So, I think the future of textiles in India is bright because we've started that journey. The government is doing everything to support that journey. We have a very strong domestic market. We already have the yarn, even MMF yarn is very strong in India. Now in MMF, we need to develop the fabric and the garmenting. In cotton, we need to develop the garmenting. So as long as we do that well, I don't see the India journey being disrupted.

Nilesh Jethani: Got it. And then last question, the trajectory of this INR400 crores capex. It would be completed by when? And any plan for next set of capex?

Punit Lalbhai: To the extent of about INR600 crores across two years, and I think we should achieve that.

Nilesh Jethani: Okay. And lastly, can we assume 1x turnover for the textile piece and...

Punit Lalbhai: Yes, you can -- textile should be -- one garment should be 2.5, 3 and AMD should be 3-plus.

Nilesh Jethani: On the breakup of INR600 crores would be?

Punit Lalbhai: You can broadly say one-third, one-third, one-third. That will happen at the last moment.

Nilesh Jethani: Got it. That was really helpful and thank you so much and all the best.

Moderator: Thank you. Our next question is from the line of Biplab Debbarma from Antique Stock Broking. Please go ahead.

Biplab Debbarma: Good afternoon, sir. So, my first question is since the 4Q FY'24 looks very optimistic, so the revenue and EBITDA in FY'24, should we surpass what we did in FY'23?

Punit Lalbhai: I think so. I think that...

Jayesh Shah: Punit, let me take the question. So, FY'23 was a very different kind of scenario, where quarter one was extremely strong. In fact, the first half of the year was very strong. And then markets started to slide down and our profitability also started to go down. So, if you look at FY'23 versus '24, they will be more or less flat. But when you look at run rate, H2 much sharper, much higher as compared to the first half of this year or second half of the last year.

Biplab Debbarma: Okay. My second question is on again on garment. Sir, I completely -- we completely understand that long-term prospects for garment segment is very, very good, for India and for EU and many other garment companies. But just trying to understand what is making you so positive in the near term that despite having capacity, we are doing capex in garment. And in terms of priority, also garment capex is over...

Punit Lalbhai: The answer is that our conversation with our customers. So, we have a lot of customers on fabric. They want us to do more garments. So, it is being driven by customer conversations and their intent to buy from us.

Biplab Debbarma: So, by when we should see some impact on the volume? I mean a decent impact on volume, say, now you're doing 7 million, 7.5 million pieces, if I am not mistaken, around that number, 7.5 kind of thing. And from there, say, per quarter 8 million, 9 million pieces. Can you expect that?

Punit Lalbhai: Very soon, I think that visibility is already there.

Biplab Debbarma: Despite you saying that softer demand environment. You were saying that you believe that kind of volume could be achievable in say one or two quarters?

Punit Lalbhai: We believe that one or two quarters is the right timeline to achieve those kind of volumes. Of course, the short-term events keep happening where it gets delayed by one quarter or two quarters. But maximum that the journey and the conversations are very interesting to where we are confident that in that one, two quarter kind of timeline, we should see the kind of volume you are talking about.

Biplab Debbarma: Okay. That's very, very, very good news. And my final question is, sir, you mentioned our defence business from defence segment. And if I'm not mistaken, you are doing something in Vande Bharat also. So, from government run enterprises or government agency, in absolute terms, would it be more than INR200 crores, INR300 crores kind of business you are doing right now? Or it is much higher?

Punit Lalbhai: Sure. I think it should be around that. I mean I'll have to crosscheck, and we can send you the exact details. But there is a good amount of PSU volume also, not just in composites and human protection, but also in Industrial, where we do filtration business, especially our air pollution control, etcetera, we would be supplying to Steel Authority of India and other government PSUs.

Biplab Debbarma: Okay, sir. Thank you. All the best.

Moderator: Thank you. Ladies and gentlemen, the last question for today's question-and-answer session is from the line of Pulkit Singhal from Dalmus Capital Management. Please go ahead.

Pulkit Singhal: Thank you for the opportunity. My question is continuing on that understanding the garmenting shift of manufacturing. Can you talk about what are some of those anecdotes that you're seeing in terms of saturation in Bangladesh and Vietnam that is giving you some confidence about shift towards India? That is one.

And secondly, when you talk about scaling up of garmenting in India, I think both garment manufacturers would be having 20%, 25% capacities. I mean I don't understand why scaling up would be an issue when -- if there is demand, I'm sure existing guys would be happy to scale up, but you're making it sound it's more about capacity.

Punit Lalbhai: So, I think good questions. I think the first question is that see the way a customer buys is like somebody, like in any field, people try and mitigate risk. So generally, they have a risk-mitigated strategy for buying where they create regional sort of targets to sort of their sourcing strategy. So, they will have a Bangladesh target, they will have a Turkey near shore target for Europe. They will have a Central America target. They will have an India target. They will have a China target.

Broadly, customers will have that kind of a portfolio of their buy plan allocated, broken up into this kind of portfolio. And they will not want anything to cross 25%, 30%. Because if there is any disruption in the world, a large part of their supply chain then gets disrupted and then the goods don't reach the shelves.

One must understand that the sort of order to shelf cycles in our industry can be as long as six months. So, these decisions have to be made well in advance. And then once that decision is made and somewhere in that six months, if some major disruption happens, you can be in big trouble if you are over-dependent on any region. So clearly, in our conversations with our buyers, people want to index more on India. The frustration that the buyers have is that we've been very slow in creating garment capacity.

Now coming to your second question on why we've been slow and why if there is demand, it cannot be done quickly. Garmenting is a very labour-intensive process today. It is a very execution-focused business. It's a complicated supply chain management strategy, where little button labours from 50 different places trims would be coming, fabric would be coming. So that -- and generally, lead times, etcetera, are very tight.

So, the -- so you have to get your supply chain management strategy very, very accurate, and given that the world has now reached very, very high levels of service and accuracy and quality, anybody starting out on this journey, it's a challenge to -- it's an execution challenge. It's a labour management challenge.

Labor in India has huge opportunities across various industries, unlike Bangladesh and many other geographies, which are very dependent on textiles. We have -- our labour force has opportunities galore. So, in India, you have absenteeism, attrition, and only now the technology is now pivoting towards automation, high output, high throughput, less labour intensity, all that is becoming possible in garmenting, which is encouraging news for a country like India.

But still, it is a supply chain challenge. So that is why very few players have created very large disproportionate value in India and even globally, it's not as if there are very strong, large names. There would be maybe two sets of hands, you can count the big and highly profitable companies in garmenting.

So garmenting is a challenging business. And so, it's not like you put a spinning plant, get one good spinner, and you can start generating top quality spinning from yarn from day one, garmenting is a little more effort than that. That's why it takes time and you need to have a good amount of supply chain management skill to make money in this competitive market.

Pulkit Singhal: So in terms of the customer conversations, I mean, now versus, say, two years ago before the whole inventory correction started, are there clear conversations where they're saying, hey, listen, we are happy to give you, say, $50 million or $70 million of garmenting orders if you set up the capacity for it?

Punit Lalbhai: The advantage of Arvind is that we are pitching our verticality along with innovation and sustainability. Very few people in the industry have that combination. So, if we have the garmenting sort of capacity is created and if we are hitting the operational and quality norms that the customers require they would have been very happy to buy from us a couple of years ago.

We were very conservative in our garment journey because, one, we didn't want to -- we have very high stakes with the same customers on fabric. It's now that we've sort of created this One Arvind team, where all textile businesses under one leadership, one very capable leadership, where the internal alignment between fabric and garment is perfect.

Rewind two years, we were an organization that had a garmenting division, that had a denim division, that had a woven division, and each would operate as sort of their own little company within the umbrella of Arvind, independently sort of dealing with customers. Now all of that has been aligned under one leadership.

And the success, the initial success of that move is giving us ample confidence and the initial success at sort of improving substantially the operating metrics of our existing garment business is giving us that confidence along with the customer saying, hey, if you create the capacity, we'll be happy to buy from you. That's been a constant for many years, actually.

We have not sort of put that front foot forward because, one, first, we were correcting the balance sheet, then we did this One Arvind positioning. Now the One Arvind positioning is firing well. And that's giving both the customers and us the confidence on increasing capacity and verticalizing it more aggressively.

Moderator: Ladies and gentlemen, that brings us to the end of our question-and-answer session. I now hand the conference over to Mr. Satya Prakash for closing comments.

Satya Prakash Mishra: Thank you, everyone, once again for taking your time out for participating in the conference call for Arvind. Looking forward to meeting you in the upcoming conferences. I and my team are available just a phone call or an e-mail away. And thank you and have a good day.

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