# “Conference Call for Analysts and Investors for Post-Results Discussion for Quarter-1 Financial Year ’20-21 of Arvind Limited”

**August 31, 2020**

**MANAGEMENT:** **MR. SAMIR AGRAWAL, CHIEF BUSINESS OFFICER, ARVIND COMPOSITES**
**MR. JAYESH SHAH, EXECUTIVE DIRECTOR AND GROUP CFO, ARVIND LIMITED**
**MR. ASHISH KUMAR, CEO OF GARMENTING AND ADVANCED MATERIALS DIVISION, ARVIND LIMITED**

**Moderator:** Ladies and Gentlemen, Good Day and Welcome to the Conference Call for analysts and investors for post results discussion for Quarter-1 Financial Year '20-21 of Arvind Limited. As a reminder, all participants' lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Samir Agrawal. Thank you and over to you, Sir.

**Samir Agrawal:** Thank you, Neerav. Good Afternoon to all of you and thank you for participating in this first quarter call for FY '20-21 of Arvind Limited. Joining me today is Mr. Jayesh Shah – Executive Director and Group CFO as well as Mr. Ashish Kumar who is the CEO of our Garmenting as well as Advanced Materials Businesses. As you all know, this first quarter saw extra ordinary business circumstances in our history. COVID-19 and associated lockdown have had a deep impact on most businesses in practically every geography around the world. Arvind's core business being tied to discretionary consumption got really hit hard. The good news, however, is that things have started to recover since June, and we are already on our way to a much better second quarter. In terms of specific Q1 results number, the overall revenue stood at Rs. 599 crores as against 1896 crores in the first quarter of the previous year. EBITDA for this period was negative 29 crores and profit after tax stood at negative Rs. 96 crores. In the textile segment, the total monthly volumes for June have recovered to almost 67% of our previous year's volume in case of denim and 64% in case of woven. If we further segregate that especially the export volumes in denim have gone back to the pre-COVID level since the June month.

Domestic market is still quite challenged, and we are seeing a demand recovery only to the tune of 30% to 40% across various segments. Further, a large part of recovering demand in India is in the rural and semi-urban areas, which traditionally buy value merchandise. Urban India is yet to resume apparel consumption in a substantial manner also reflected in the results of major apparel brand and retailers in the country. For us, our garment factories have also resumed the volumes to +60% of the previous year's monthly run rate by June end and we are seeing continuing improvement over the following month. Textile margins have recovered to a healthy 12% level primarily aided by larger portion of export sales and a favorable exchange rate, Dollar has been around Rs. 74-75. Our advanced material business has been much more robust and resilient in comparison. Monthly revenue run rate has recovered to last year's average of around Rs. 60 crores per month. EBITDA margins in this business have also returned back to 13% level which was in the pre-COVID Jan-Feb timeframe.

We continue to see strong market demand and we have solid order book position for AMD products, so the only sort of disruption we had earlier in the Q1 was around the supply side. As we had shared in our last discussion in June, we have swiftly implemented multiple measures to rationalize fixed cost that have already yielded 15% to 20% structural cost savings which are likely to sustain over time. Our working capital discipline also continues to remain tight. The net borrowings which stood at Rs. 2371 crores as of March 31, 2020, did increase to 2702 crores by end of June, however, this is already declining, and we are quite positive that this is likely to return to the March end levels by the end of second quarter. Our cash accruals have been positive since June month and our liquidity position is quite comfortable. Looking forward, we expect the second quarter to recover our denim and garment revenues to almost 80% levels and woven revenues to 60% level of the previous year's Q2. We expect EBITDA margins also to recover through a positive 10% to 12% range, so that is pretty much what I have as opening remarks and commentary. Now, I invite you to ask any questions that you may have. Thank you.

**Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Bhaumik Shah from SMB Global. Please go ahead.

**Bhaumik Shah:** Good Afternoon, we would like to know that what will be the cash flow position in the coming quarter vis-a-vis increase in sales and increase in export from various sectors?

**Jayesh Shah:** You are talking about sales or cash flow or cash accruals?

**Bhaumik Shah:** Cash accruals basically.

**Jayesh Shah:** As we have stated in our presentation that we have sent across as well as my colleague mentioned that June and July and August have seen positive EBITDA as well as cash accruals to the tune of around 30 crores cash accruals on a monthly basis and we expect this number to rise as we increase our utilization over a period of time, so Quarter-2 you may see a significantly higher cash accruals or positive cash accruals compared to Quarter-1 which was a loss.

**Bhaumik Shah:** One more question that I think we have invested in some of the countries outside India, so do we see any advantage over there because of arbitrage situation or any geographical advantage or disadvantage?

**Jayesh Shah:** The reason why we invested in Ethiopia was because of the AGOA treaty which helps African nations to have duty-free access to Europe and USA, and that this will continue, and we continue to increase our revenues on a periodic basis. Of course, it got also affected in the first quarter, but that advantage is there with us and we continue to enjoy that benefit.

**Bhaumik Shah:** Last question from my side, Arvind positive in Ethiopia as well Bangladesh or in Mauritius?

**Jayesh Shah:** We do not have investments in Bangladesh or in Mauritius, we have investment in Ethiopia, and we are positive in Ethiopia.

**Moderator:** Thank you very much. The next question is from the line of Prerna Jhunjhunwala from B&K Securities Private Limited. Please go ahead.

**Prerna Jhunjhunwala:** Thank you for the opportunity, wanted to understand the domestic demand scenario and inventory in the supply chain across retailers or the middlemen, and how do you see it against pre-COVID levels?

**Jayesh Shah:** As my colleague mentioned that the domestic demand has been quite subdued. There is challenge both for the end consumer like B2C businesses where we supply fabrics or garments to branded apparel companies and retailers where the sales have been quite affected. Similarly, our retail sale of fabric is also impacted because of that, so the goods which we sold in the last quarter of Q4 or last quarter of last financial year are still not really sold out by them because most of the period so far has been under the lockdown, so they are holding inventories. They have postponed purchases we believe that most branded apparel and retailers will not purchase, they will skip a buy for one season and I believe they will start buying in Quarter-4, so we will see a gradual reduction in inventory levels of our customers over next three to six months particularly in Quarter-3 where the it is a Diwali festival season where we believe that a lot of inventory will get pushed out and they will not be buying something new for next four to five months, so the demand from domestic market will remain subdued for the domestic consumption. However, the demand from the domestic markets for exporting garments because a lot of our customers are also buying fabrics to convert them into garments, a lot of garment factories in India, that demand has started picking up and it is reaching to pre-COVID level.

**Prerna Jhunjhunwala:** Can you bifurcate this for denim and woven because these are two different segments and different demand drivers because one is casual, and one is purely formal?

**Jayesh Shah:** Not really, both are, bulk of our woven fabrics are also casual in nature, but the denims are doing far better and as you know even in their current period up to July or August, our sales in India as well as exports are better in denim. They have reached almost like 75%-80% in denim, but they are lower at about 60% in woven fabrics, so woven fabrics is expected to take off in the Quarter-3 once this demand or the supply or oversupply or stock which is there in the system dries up.

**Prerna Jhunjhunwala:** Sir, my next question is for benefit of lower cotton prices, are they visible in your current numbers are partially visible and expected to improve further going forward?

**Jayesh Shah:** Fundamentally, the cotton is it should be in a bearish zone, however, in recent past in last two weeks as you possibly know that the cotton prices have increased a little bit possibly because the lot of cotton, there is a bumper crop in India, but that crop is also being picked up by Cotton Corporation to support the prices. As a result, the cotton actually has increased from where it was about a month ago, so we do not see too much of different margins than what is there today on account of cotton, so however as the component of domestic sales improve, there would be a little bit of reduction in the margins that you are seeing now because both cotton as well as currency have been very favorable in Quarter-1 and also in July and August, but as the sales of domestic markets improve, you will see a little bit of reduction in the margin of textile business.

**Prerna Jhunjhunwala:** Sir, last question would be on this unorganized competition because in the fabric also there is lot of unorganized market, do you see that some kind of consolidation happening as spinning players are talking about it, but do you see any consolidation happening in the fabric space which will improve the bargaining power of fabric suppliers also going forward?

**Jayesh Shah:** I think the way we are seeing is that, yes, there is going to be some kind of a reduction in the capacities in the country at least temporarily if not permanently because of both demand as well as the working capital related challenges that the smaller units are facing. As such, the kind of sales or the customer mix and the product mix that we have, we do not really necessarily complete so much with that strata for our sales. Actually, bulk of our sales are to branded apparel players where really it is more on the designs, on the service, on the quality, on the fast turnaround that we are dealing which is why we are able to sell at a healthy margins and I think those advantage will continue.

**Moderator:** Thank you very much. The next question is from the line of Nihal Jham from Edelweiss Financial Service. Please go ahead.

**Nihal Jham:** Sir, I was asking that in the last call you had mentioned that specifically because of higher share of formals there was a lower demand, I just wanted to check that is that the trend you continue seeing in the domestic business?

**Jayesh Shah:** The formals per se are selling less obviously. It is the denims, it is the mix, and it is the casual even in the wovens which is where the demand is, so as you see both in exports as well as domestic market, the wovens have recovered, but they have recovered at a lesser pace as compared to denims, however, in Quarter-3 we expect wovens to pick up momentum and reach much higher level of sales which could be 75% to 80% as compared to 60% which it is today in August.

**Nihal Jham:** Sir, my second question was on the export side, just wanted to understand that the revival in demand is seeing in both across the two major geographies of US as well as Europe for us or right now this is US driven revival?

**Jayesh Shah:** It is on both, we are seeing sales across Europe and the customers have come back from US as well as Europe or retailers as well as brands from both the continents.

**Nihal Jham:** Is there a possibility Sir that this could initially be inventory filling and possibility of demand flattening out or you see that this is actually regular demand, which has come back?

**Jayesh Shah:** We are seeing some of our key customers have reported increasing consumer sales over last few months, so it has for example one of the large customer reported that they are back to 80% of pre-COVID levels from 60% two months back, so it shows that there is an increased momentum towards consumption. Also, based on the enquiries and based on indications of what they would like to buy in the coming few months, we believe that this is sustainable that we should be able to increase our capacity utilization going forward.

**Nihal Jham:** That is helpful, just one more question from my side, as we have been hearing from other textile companies also mentioned wherein increase in enquiry, especially on the garmenting side where the business could be shifting out of specific geography specifically in our case are we seeing any traction or there has at least been an increase in enquiries on the garment side if you could highlight it?

**Jayesh Shah:** Yes, I think it is across the board whether it is whatever fabric we also sell, they all are eventually converted into garments by us or by some of our customers, so indirectly entire fabric supply from our side gets converted into garments and to answer your questions in short, yes there is a pickup of demand in both garments as well as fabric.

**Nihal Jham:** Sir, specifically I meant rather than a verticalization, we just had overall for the country as a whole there is an increase in enquiries or say business shifting away from China specifically in garments?

**Ashish Kumar:** Most of these big customers are relooking at their entire supply chain footprint and as a country risk mitigation strategy, they are definitely looking at India as one of the destinations. However, what happens is that like at this point of time, these customers are planning for their fall 21 assortment, so definitely there is a flow of enquiries, but this will result I think in real business in the fourth quarter of this financial year.

**Moderator:** Thank you. The next question is from the line of Nishit Rathi from Chanakya Wealth Creation. Please go ahead.

**Nishit Rathi:** Thank you for the opportunity, Jayesh, just wanted to understand what kind of cost measures have we taken and does that mean that will it reduce our capacities also to some extent or there is no effect of that sorts?

**Jayesh Shah:** We have temporarily looked at reorganizing some production facilities so that capacity utilization is optimum wherever we are operating and that has resulted into temporary reduction in fixed cost as well as in the capacity. However, as we discussed earlier, as we move forward and go towards higher utilization, the fixed cost will get some of the fixed cost that we have kind of currently not incurring will increase. There are structural changes that we have done into the way we are doing business, the way automation is being implemented across the board, that permanent structural advantage will stay with us without losing the capacities of various products.

**Nishit Rathi:** A related question to that is this structural reduction in cost that we are talking about 15% to 20%, just two parts to that, one if you could just share some sense, one you said is automation, which are the line items where we had seen the impact of that, and second is now to reach by Q3 FY '20 we were run rate at 200 crores of EBITDA in fabrics, so now to get to that number, what utilization can we just get the since the cost will be a lot lower?

**Jayesh Shah:** Almost at 80% level we should reach there.

**Nishit Rathi:** So which means that by Q3 you are already 80% in denim and you believe that in the fabrics also you might get to that level, so is it possible to assume that Q3 and Q4 you will be almost close to your pre-COVID kind of level?

**Jayesh Shah:** I would like to refrain from giving forecast in a very uncertain time, but we are aiming towards two things, on a month-on-month basis increasing the utilization on one side and secondly of course retaining the cost advantages, but currently the times are uncertain, there are other challenges of even if there is a demand, you do not want to expose yourself to open credits and there are other challenges that we want to are there, so even if there is opportunity to sell, we may want to constrain it by the risk of account receivable or cash flows, so those are various considerations, so I would not be able to in a very abnormal situation give a forecast, but as we have given that we are hoping to grow top line by or reach those levels of 75% to 80%, one thing you should note that denim in Quarter-3 is generally much lower because it is a season change and as a result we may be lower than 80% in Quarter-3 whilst our volumes in wovens may rise to much higher levels.

**Nishit Rathi:** That is a very fair point, but this would mean that since we would be not reaching capacity, there will be very little CAPEX that we will do this year and next year, right?

**Jayesh Shah:** I think there will be very negligible CAPEX. We have incurred CAPEX of about 20 crores in Quarter-1 which was spillover of committed expenses which we paid out in Quarter-1. There is hardly any CAPEX during the financial year going forward. There is some CAPEX which we want to do in our advanced material division, but all in all not more than 50 crores during the year. I do not think there will be very significant CAPEX even in the coming years because I think we have enough capacity and our approach and our thing is to try and reach full utilization keeping cost at lower levels and if required resort to outsourcing rather than manufacturing in-house.

**Nishit Rathi:** That is great to hear, which means you are saying that the first priority is to get to a full capacity utilization and even after that resort to also rather than do-it-yourself right, which means that…?

**Jayesh Shah:** To earlier question of Prerna regarding the unorganized sector, I should have mentioned it that one of the opportunities that we see is that right now and we believe it is for medium term. There are lot of opportunities to outsource intermediate products rather than doing it ourselves and that sales are on CAPEX as well as on working capital.

**Nishit Rathi:** Jayesh bhai, just one last question if you could just give us some kind of guiding principle how should we think about the next year, what is the best way to think about it, keeping everything in mind, the uncertainty that prevails today versus because you are the best person who has seen things on the ground, on one side you are seeing the supply chain conversations happening, on the other side there is very little bit there has been order but…?

**Jayesh Shah:** We believe that we should be reaching almost between 90% and 100% of capacities in the next financial year from where we are today and subject to currency and cotton which we will not be able to predict, subject to those two parameters we should be able to slightly improve margins compared to FY ’20 levels because we would have saved on fixed cost and also the currency anyway is unlikely to appreciate significantly, so it will be better than FY ’20 in any case, so we believe that margin should be better and we should be aiming to reach almost between 90% and 100% next year.

**Nishit Rathi:** Which will mean that you will be back on your debt reduction targets that you had set for yourself?

**Jayesh Shah:** We are as we have spoken earlier that this year by end of September we should be back to March levels and in Q3 the debt should come down, which means that even this year subject to uncertain we should be able to reduce our debt by couple of 100 crores.

**Nishit Rathi:** This is very helpful, thanks a lot and a super effort Jayesh *bhai*, really impressive.

**Jayesh Shah:** Thank you.

**Moderator:** Thank you very much. The next question is from the line of Prerna Jhunjhunwala from B&K Securities Private Limited. Please go ahead.

**Prerna Jhunjhunwala:** Thank you for the opportunity, Sir just wanted to understand this cost reduction measures that you spoke about earlier in this call, will it result in a sustainable improvement in margins by around 100 to 200 BPS at least, because our cost structures have got leaner, I mean our cost structure because everyone was at zero sales and every possible cost has been reduced now, so can we assume that we are at the best cost structure possible ever today?

**Jayesh Shah:** The cost that you are seeing in Quarter-1 reported costs are misleading because every month the costs have been very different, so it will be for example if you look at April, we reduce costs very sharply, however, Government has mandated that full wages should be paid and as a result the costs are higher than what we had originally anticipated. May cost came down very, very sharply, so late June but from June the cost started going up because whatever planned complete shutdown were there as you start incurring and getting more and more people to work, the cost went up so it will be wrong to see April, May, June cost and make an estimate for the future, however, where we are today from say in Financial Year ’20 if I take the average what my fixed cost base, it was about between 1400 and 1500 crores. From there, we believe that we should be able to reduce our cost structuring by 15% in the coming financial year.

**Prerna Jhunjhunwala:** Okay, so FY ’21 will be largely 15% lower?

**Jayesh Shah:** Again, I am saying that FY ’20, ’21 every month is a different month.

**Prerna Jhunjhunwala:** ’22 sorry?

**Jayesh Shah:** Yes.

**Prerna Jhunjhunwala:** Just wanted to understand depreciation, your depreciation on QOQ basis, a bookkeeping question only, on a QOQ basis is lower, any change in policy or something?

**Jayesh Shah:** No, there is no change in the policy whatsoever, it is just that the periods some assets may just go off, but otherwise there is no change in the policy.

**Prerna Jhunjhunwala:** Sir, your tax rate for the year would be around?

**Jayesh Shah:** This year it will be practically very small tax on the PBT because the PBT itself will be very small, but having said that otherwise we are on a full tax, so whatever PBT we will come up with you should take of 35%.

**Prerna Jhunjhunwala:** 35%, and when shall we go to the new tax regime?

**Jayesh Shah:** I think two more years.

**Moderator:** Thank you very much. Ladies and Gentlemen, that was the last question for today. I would now hand the conference over to Mr. Samir Agrawal for closing comments.

**Samir Agrawal:** Thank you everyone for joining us today. We will meet again in one quarter. Thank you. Have a Good Evening.

**Jayesh Shah:** Thank you everyone.

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