"Arvind Limited

Q4 FY '23 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to the conference call for Analysts and Investors for Post-Results Discussion for Quarter 4 of Financial Year 2022 and 2023 Arvind Limited. 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 star, then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Samir Agrawal, Chief Strategy Officer, Arvind Limited. Thank you, and over to you, sir.

Samir Agrawal: Thank you. A very warm good afternoon to all of you, and thank you for participating in this call to discuss the fourth quarter and full year results for financial year 2023 for Arvind Limited. Joining me today is Mr. Jayesh Shah, Executive Director and the Group CFO. We also have Mr. Punit Lalbhai, who is joining us today. As you know, he is Executive Director as well and Vice Chairman of Arvind Limited.

And as you would have picked up in the briefing note, we have embarked upon a fairly ambitious program to invest and transform both our advanced materials as well as garmenting and textile businesses. Punit is the architect for many of these plans and actually has passionately built up the AMD business from scratch, as some of you may already know.

He will be sharing our thinking behind what we are planning and proceeding and some of the priorities in the short to medium term. But before we get there, allow me a few minutes to share our observations on the macro environment in which our business are operating as well as read out the summary of our results for Q4 as well as FY 2023.

The demand situation in the key export markets, especially in the US, continues to be both encouraging and challenging at the same bet. The global brands and retailers have reported better than Q4, Q1 earnings, which kind of wrapped up around February, March time frame, yet if you read their commentary on our outlook, it continues to remain cautious.

In India as well, the consumer demand has remained relatively strong through Q4, though there are signs of sluggishness in the recent weeks of Q1. Both in domestic as well as export markets, customers continue to postpone their buying as they are tightly managing their inventory and they're buying in small lots and buying as close to the secondary demand as possible.

Further, we have talked about our disadvantage with respect to Bangladesh because we do not have the GST duty free status to Europe. In addition, one recent development is the collapse of currency in Pakistan, which has started to give them a bit of an advantage, especially in the linen segment. So, this cautious environment actually underpins our Q4 results, which got impacted by these factors.

Overall, for this quarter, the revenue stood at INR1,881 crores, which was lower by 5% on a sequential basis and compared to the Q4 of last year, it was lesser by 14%. Operating margins were almost flat around 10% levels. Volumes in the woven segment actually continue to remain very, very strong, while denim and garment volumes saw reductions.

Price realization started trending down, which reflects the lowering of RM prices in the recent quarters. For the full year numbers, the consolidated revenue stood at INR8,382 crores, which was higher by 5% compared to last year. EBITDA margins remained flat at around 10% levels. So specifically, they were INR800 crores as compared to INR808 crores.

PBT stood at INR427 crores, which was similar to the number for last year. PAT, profit after tax, stood at a robust INR349 crores, which reflects a lower tax outgo on account of losses due to sale of subsidiary shares as well as our migration to the 25% tax regime. Textile revenues for the year stood at INR6,716 crores, which was marginally higher than the last year revenues of INR6,611 crores.

Volumes in woven segment increased from 120 million meters in FY '22 to 127 million meters, an increase of 7 million meters over the year. Denim volumes -- denim fabric volumes declined from a run rate of 92 million meters last year to 55 million meters. Garment volumes are also lower and stood at 32 million pieces of full garments. And essentially, this reflects the caution among the key buyers, which we have mentioned earlier.

Price realization had peaked in Q2 and started trending down. On a full year basis, the realization was higher for both denim and wovens, actually 25% higher for denim and 18% higher for wovens. And this obviously reflected the higher cotton prices, which averaged INR214 per kg for FY '23 as compared to INR140 per kg for FY '22.

So, textile margins overall stood at 9.8% as against 10.7% in the previous year, essentially a result of slightly lower volumes as well as the fact that prices were higher, and the denominator was larger. AMD continued to deliver on its promised growth and delivered a 22% growth, closing the year at INR1,250 crores. EBITDA margins for this business improved to 13.2% as compared to 12.5% last year.

We continue to do a very good job on working capital. So, the net working capital turn improved from 5.6 turns at the end of FY '22 to 6.3 turns at the end of this year. And this reflects the tight operating discipline which we have been following. If you recall, we had guided for INR300 crores reduction on our long-term debt during the year and I'm quite happy to share that we delivered INR304 crores of long-term debt reduction. Closing the net debt as of 31st March 2023 stood at INR1,327 crores as compared to INR1,682 crores the previous year.

In terms of a quick commentary on FY '24, we expect the overall revenue growth to be in a modest single digits and most of this will be powered by AMD, which we believe will deliver another year of robust 20% growth. We expect garment volumes to start improving in the second half of the year H2 as customers become more comfortable with the economic outlook and resume some of their key buying programs.

Margins can be also expected to see some improvement in tandem with the volume growth. While we are resuming our capex program and we have laid that out, we will remain quite cautious and calibrated and we'll continue our stated intent of reducing the long-term debt during the year. During FY '24, we intend to pay back another INR250 crores of long-term debt and get that long-term debt level to about INR400 crores by end of March 2024.

So, this concludes the first part of my opening remarks. I request Punit to now join and share his perspective on the outlook and priorities for the business in short to medium term. Over to you, Punit.

Punit Lalbhai: So good afternoon, everyone. It's a pleasure to be here, and welcome to the call. So, I'd like to sort of put into context first the sort of context in which the results have been achieved. I think the world is facing a very uncertain situation with some of the key markets for textiles in a situation where there is high inflation and bankers are tightening monetary policy to fight it.

That is having a real effect on demand contraction. We're also in an environment where raw material remains uncertain. As we go forward, the initial forecast for monsoon, vis-a-vis the price of cotton, that remains to be seen as a big uncertainty going forward. And in the recent past, we are also seeing some sluggishness in the domestic Indian market.

So given all these things, it is quite heartening to see that many of our business divisions have fought through these difficult challenging times and still achieved a relatively good business performance. If we look to the future, we seem to be improving in several respects. We have done a lot of work on efficiency and structural changes where we should start to get more and more operational efficiency and better sort of performance on margins and on productivity.

If you look at the overall textile business, there are going to be two major focuses that we will have for the year going forward. Number one, we are going to add some garment capacity. A lot of you may be wondering that the garment volumes have been a little soft in the last couple of quarters. That has been because some of our key partner customers have been cautious because of the high inventory build-up post-COVID buying. People have bought very little compared to their usual buying pattern and have postponed orders.

We expect that despite soft economic outlook the world over, that buying will have to resume, especially in the second half of the year. So, we do expect garment volumes to start improving in the second half of the year. And the medium-term outlook for India looks quite bright. If you look at the overall pattern of buying, more and more buyers want to buy vertical packages from customers, from suppliers. More and more people want to de-risk China, Vietnam and Bangladesh, which are the 2 major beneficiaries of this change from China are fairly saturated to the extent that buyers don't want to place too much more eggs in those two baskets.

Therefore, India is very well-positioned for the medium term as a sourcing destination for many of our key brand partners. So, we are very bullish on that story, while the immediate few quarters, we remain very cautious. With that in mind, we are building capacity for -- to take advantage when the cycle turns positive. So that's the story on garments, cautious for a couple of quarters and then improvement to be seen in the second half of the year and medium term to be quite bullish and bright.

The second imperative in the textile business is the sustainability journey. Even before ESG became a big focus, we have believed in sustainability and the impact that our industry has on the world. And we are I'm happy to report quite ahead on the curve, which is becoming a real source of competitive advantage.

For example, all our facilities don't use any freshwater. We recycle all the water, which is a very large footprint. And we also do a lot of water savings with farmers. We work with about 100,000 farmers to grow sustainable cotton. We save water there. We save chemical there, we save pesticides there to create a sustainable footprint for our main raw material, which is cotton.

We are also focusing very aggressively on changing our source of energy and decarbonizing. We are anticipating to dramatically increase the proportion of renewable energy in our portfolio, which will not only make us more sustainable, it should also make us somewhat more competitive. And we are also working on cutting-edge technologies that will help bring more and more circularity to our business where we can use -- take raw material from used clothing and reincorporate it into the manufacturing supply chain.

So, with all of this, we expect deeper relationships with many of our partner brands who value sustainability, giving us a competitive advantage. So, these are the two major areas where we are going to work hard on the textile front and unlock value.

Coming to the second sort of portfolio in our group, which is the AMD portfolio. We have been showing very encouraging results for many quarters now where the growth is satisfactory. And all 3 of our verticals, which are human protection, industrials and composites, all are firing on all cylinders. And a bulk of our capex cycle or a large chunk of the capex cycle is going to be allocated to these 3 emerging businesses.

And we are going to focus on getting better quality customers, more and more regulatory approvals in our home country, India, which is the real large opportunity going forward. And we are going to continue this 25% growth with overall 14%, 13.5%, 14% margin profile going forward. So, this set of businesses is extremely exciting and should increasingly become a bigger and bigger part of the overall Arvind portfolio.

Coming to capex, which is the final thing that I will talk about. The two major areas in which our major areas where our capex is going to be allocated is, as I mentioned, the Advanced Materials division and our garments business. And we expect that across the next couple of years, we should be spending around INR600 crores to ensure that we land these two growth engines at the right place when the time for taking advantage comes.

Overall, if our budgets are met, we should be able to decrease long-term debt, which is the debt that has risk associated with it and a bullet, I mean, the payment timelines associated with it. However, as we are going to see growth in this year, we may actually increase our short-term debt. So total debt may remain flat, but long-term debt will continue to come down.

So overall, we -- the mood is cautious in the very, very short term. We expect improvement in the second half of the year and the middle term looks extremely bright for the company.

And with that, I hand it back to Samir to close the commentary and start the question-and-answer round.

Samir Agrawal: Yes. Thank you, Punit. And so that wraps up our opening remarks. Thank you for listening patiently. Hopefully, that already might have answered many of the questions you may have in mind, but we'll open the lines up for additional follow-ups as we will be there. Thank you.

Moderator: Thank you very much. The first question is from the line of Aabhash Poddar from Aionios Alpha Investment Management. Please go ahead.

Aabhash Poddar: Congrats on a good set of numbers. So, both my questions were around the guidance that you talked about. So just first off, starting on the margin bit. So, you're making in AMD, your margins currently are at 14.5% EBITDA and overall company at 9.5%. I just wanted to understand why are we still guiding for a flattish to margin improvement? Because as AMD share goes up, the margin should optically be better. And so given that EBITDA per unit could be flattish for the textile division, optically the margin share is better on the textile side as well. So just wanted your thoughts on the margin bit on the guidance, why are we guiding this way?

And the second part to the same question is on AMD, what is the sustainable or the actual margin that we can get to? Because in F '23, every quarter, sequentially, we've seen a margin improvement. So just your thoughts on this would be really helpful.

Jayesh Shah: So, thanks for the question. So, first question is about the margin and that too in the immediate coming year that you asked. So let me explain to you about our margin in textile business. So currently we are faced with 2 situations in -- as far as margins are concerned.

One is about the raw materials where the raw material prices are, though they've come down, they are significantly higher than what they were over last several, several years. That has affected our contribution, gross contribution that we are on raw material to sales ratio. Though this has started to now look better, if I look at on the run rate basis, the contributions in quarter 4 were far better than what we earned in Q3.

However, the second issue about the margin, which is the -- is relating to the capacity utilization, especially in our garments business as well as in our denim, both being low is impacting the absorption of our overhead, fixed overheads. And as a result, the margins in textiles are currently looking a bit lower. And we are -- as Punit and Samir mentioned in the earlier conversation, we are still wanting to be cautious and not guide a bullish margin or a sales environment because of the uncertainties that prevail in the market.

So, in the short term, we are guiding that the margin may remain more or less similar. We are not saying they will be exactly what they are. There may be a marginal improvement. As far as AMD is concerned, you are right, our margin should be in the range of about 14% or thereabouts. What you are seeing, again, more than just the margin, if you look at the ROCE in our AMD business, that's looking even better as the quarters have passed and the years have passed as our utilization of our capacities and our overhead absorptions are improving in those businesses.

The margin of the ROCE profile is, in fact, improving as the period -- as the time passes. On medium term, your answer to your questions about why we are guiding at -- we are quite -- at this margin, if we were to forecast for next few years in textile, it doesn't make sense to make investments. Actually, we are hoping that in some time as the demand cycle picks up and the raw materials stabilize, our margins should start looking up. Maybe a couple of hundred basis points space is there in textile margin, which we should achieve over a period of time.

Samir Agrawal: And just to add on to that, on AMD side as well, your question is fair. I think inherently, the businesses are capable of taking the margins up to about even, I would say, 15%, 17%. But understand that AMD is a portfolio of many businesses. We continue to -- while the core part of the portfolio has matured and started delivering very stable set of results, we still continue to augment that.

And hence, the newer part of what we experiment sometimes does kind of end up creating costs, which are higher. And that's why we are right now in the 13.5%, 14% zone. And gradually, it will inch up to that larger level I talked about over next to two, three years.

Aabhash Poddar: Perfect. Perfect. That's very clear. I think the margin commentary is more out of caution then and clearly has room to go up further. My second question was again on the guidance that we gave on the cash profit. So, in the current year as well on a consolidated basis, post net working capital and tax, we have generated around INR650 crores of cash. I understand that you will be stepping up your capacity or capex a bit more than the current year.

But I would have still thought and on an overall basis, your debt would still come down. And I say overall, I mean the long term and the short term both combined, I would have thought that albeit at a lower level, but it would have still come down. So just wanted to understand the broad math that we are having on the cash flow side where we are saying that the PAT will remain flattish?

Jayesh Shah: Sure. So, this year, there has been some kind of cash flows that we generated, not only operating, but otherwise from sale of certain assets that possibly augmented the cash flow a little bit. We are stepping up the investment compared to what we did last year. That is point number one. Point number 2, last year and 3 years in the past, we had skipped the dividend. And we are now getting back to dividend.

In fact, we are paying some extra special dividend as well this year to compensate for what we did not do in the last few years. And thirdly, we are expecting to grow and that would require even with a very tight net working capital cycle of almost two months, two and half months, which still will -- for the growth will require working capital. So, the working capital debt may go up. However, the long-term cash flow, as you said, or INR600 crores, INR650 crores that we generate would go towards paying dividend and capex and the repayments.

Aabhash Poddar: Understood. Fairly clear. If I can just squeeze in one more. So, could you just talk about the interest cost savings that you get from substituting the debt from long term to short term? What's the extent of benefit that you may get on that, or is there no benefit at all which is going to come?

Jayesh Shah: That is a more benefit, I would say, the interest cost per se are lower by about 150 basis points. So yes, to that extent, but it will be marginal in a sense if you do INR200 crores which also, it will be like INR3 crores, INR4 crores, not much.

Moderator: Thank you. The next question is from the line of Sagar Parikh from One Up Financial Consultants. Please go ahead.

Sagar Parikh: Congratulations to Punit, Jayesh and team for dividend as well as coming back to growth capex. So, my first question is on this capex of INR600 crores. So, if you can give some sense of how much are we investing in garments and how much on the technical textile or Advanced Materials side? And what could be the potential asset turns from this business? And eventually, what kind of ROI that we can generate from this? If you can give some colour on that?

Punit Lalbhai: Yes. So, I mean this is a very -- I mean, very, very rough sort of 30,000-foot view, but it should still be helpful. 40% around would go into AMD, around another 30% would go into garments and 30% would be debottlenecking and maintenance capex across the group, most of which will go into the textile business, which requires upgradation to remain relevant and to continue generating the great cash flow that that business gives. So that's the kind of sort of very broad thumb rule that you can go with. And the asset to turnover ratio, that will be around 2.5 to 3 in both garments and AMD, which is significantly higher than textiles.

Sagar Parikh: Okay. So basically, the INR600 crores can generate additional INR1,500 crores to INR1,800 crores kind of revenues.

Punit Lalbhai: Yes, of course, there is a ramp up. So, it takes a while for this kind of especially garments to reach the full potential. So, the 3 I'm saying is at full maturity. So, it may take around 18 months. But you are right.

Jayesh Shah: In short, yes. So that's the plan. And just to fill you in with some bit of a follow-on question that may come, so currently with the closure of our capacities in Ethiopia and one of the factories we did during COVID period in Ahmadabad, our current rated capacity at a reasonably high efficiency is around 42 million to 45 million garments, which we intend to take it up to 60 million over next -- invest into capacity creation up to 60 million.

On AMD side, we do have -- we do have headroom right now to grow with 10%, 15% over and above what we have planned for the current year from existing available infrastructure that we have. And the current -- the capacity we are creating should give us another growth of about 25% to 30% over this period. In addition, the growth can come as and when, demand for denims go up because we have capacity in fabrics. Woven is completely full, but we have capacity in denim.

And happy to let you know that there are now -- I think denim has bottomed out at 11-odd million. I think it's showing signs of improvement as we progress. And I think they may not go to normalcy in a short period of time, but the -- you will start seeing improvements over the quarters -- coming quarters.

Sagar Parikh: Got it. And this incremental ROI perspective for this INR600 crores of investment.

Jayesh Shah: We do -- generally, we do a calculation where we are at about 3.2, 3.5 paybacks, simple payback over the investment, which will be like between INR150 crores to INR200 crores of generation. Then it matures. It may take time, but when it matures.

Sagar Parikh: Understood. And my second question was on this -- in your opening remarks, you mentioned about this collapse of Pakistan currency which is helping them in terms of denim and now you're saying that denims have bottomed out. So, could you collaborate these 2 statements? Like how -- so is Pakistan now gaining more share of denim business for global brands or because they are now more...

Punit Lalbhai: I think what has happened has happened over a 2-, 3-year period where Pakistan currency -- now to the extent I would argue that with the situation in Pakistan, it might be actually hurting rather than helping with such rapid sort of depreciation. But Pakistan has some very strong competitors that have been vertical from day one. So, they fulfil the changing requirement of the market where people want to buy more and more garment packages.

And to that extent, because everything is under one roof, they can be faster because of their basic costs, they can be competitive as well and they've done a great job in design and innovation. So, we are also good on design and innovation, but we don't have that added verticality. So, speed and that one-stop shop, that is where India needs to catch up and that's where we are trying to work. I think denim sort of deteriorating to this extent is majorly a result of cotton going to where it did last year, which is at INR1 lakh a candy.

A lot of that product was outpriced, and people switch to other products that were less cotton hungry. Denim is very cotton hungry because it's a heavy bottom weight fabric, mostly. So that is the reason of overall demand destruction across the board for denim. And now what we are seeing is that 60,000, 65,000 and the market coming back to some extent, but not to the original levels because of all these other headwinds around the global macroeconomic scenario looking a little sort of uncertain and people not spending money on discretionary items.

So, I think that's why the recovery hasn't happened as well as it could have. But we are -- but the mitigating factor is that brands have bought so little that they are now starting to buy as the time for selling comes closer, they're placing orders to sort of shore up their inventories to whatever small extent that they need to be shoring up. So, we do see things improving from here and not deteriorating further.

Sagar Parikh: Sure. So, the way I look at it is denims will keep growing now from here on at least in single digit or mid-single digit to double-digit kind of. Garments could see substantial growth in FY '24 given that we have capacities already there which are underutilized. And AMD will keep growing at 20%, 25%, right? Correct me if I'm wrong, but these 3 and woven we are fully utilized. So wovens possibly be in low single-digit kind of volume growth?

Punit Lalbhai: Yes. Denim will see a cautious growth. I mean, it will not be double-digits. It will probably be single-digits, but consistent, the trend will start looking up quarter-on-quarter. Garments, I would just sort of modify your statement to say that you'll start looking at better numbers in the H2 because where we sit now, we are discussing H2. So, the -- if I'm booking orders today, if I'm having conversations with customers today, it is for delivery in H2. So...

Sagar Parikh: Are we factoring in any kind of benefit coming from this U.K. FDA treaty, which is possible or likely now? Or this is...

Punit Lalbhai: So that can potentially be a very big fillip to the Indian garmenting industry. And of course, once it is announced, it's going to take people some time to sort of react on it. But yes, medium term, it could have a big benefit for India as a country. And therefore, we should also be sort of enjoying that party when it starts.

Sagar Parikh: Understood. And this -- firstly, congratulations on the dividend part. After 4 years, I think we are announcing a strong dividend. Is there like -- just wanted to check about the dividend. So, going forward, will this be like a recurring factor? And is there like a dividend policy that we are coming up with, or because you have...

Jayesh Shah: So, Sagar, we do have a dividend policy, and which is to do dividend between 20% to 30% of PAT, which we kind of continue this time, we have done close to about 25% dividend as -- that would mean about INR100 crores dividend that we should distribute. We have done, of course, one extra INR2 dividend basis, what we did not do last -- in fact, last year, we could have distributed because the year was not impacted so much.

But we still refrain from declaring. So, we have declared it this year. Going forward, yes, the dividend, we want to continue with the dividend, of course, looking at the -- how we see the next coming few years. But it will be in that range of about between 20% and 30% of the PAT. That's the policy. Yes.

Sagar Parikh: Okay. Great. And just one clarification. This would be my last question. This capex of INR600 crores over 2 years. So is this over and above the maintenance capex that you usually have about INR100 crores, INR150 crores or this...

Jayesh Shah: So, we see part of that, as Punit mentioned that about 70% of this is for AMD and garments and 30% is of the other capex.

Sagar Parikh: So, it includes everything, right? So, it will be like both...

Punit Lalbhai: It includes everything. It includes everything. And some of what we say maintenance capex is also innovation capex, debottlenecking capex. It's not maintenance, maintenance that doesn't give you any advantage. It gives you advantages. It may not give you too much top line.

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

Prerna Jhunjhunwala: Congratulations, sir, on a good set of numbers. Sir, I wanted to understand 2, 3 things. First, being the garments business, we are looking forward to increase our capacities. I understand that the demand is going to improve from here on and we want to be capacity ready. I just wanted to understand the efforts taken on building on new clients, new product categories or what categories we are focusing on to utilize our capacities better than in the past?

Punit Lalbhai: So, thanks for this question. It's a great question because I think the turnaround of garments depends on the factors that you mentioned. And I think the efforts to build very deep strategic relationships with customers is on in right earnest. So, I think we have made some very important structural changes in the company where we have sort of brought a lot of our textile businesses under one management and streamlined a lot of operating parameters.

And we have -- in the short time that we've done this, we are already seeing a lot of efficiency unlock, a lot of unlock of sort of coordination, planning and that, in turn, is leading to better performance on delivering to customers. So, working on that customer delight, both with product and service is a key component.

So that's one thing, structural changes. Number two, we have also brought in perhaps the highest level of senior talent in the last 3 to 4 months in the company, which are -- which all have proven track records in garmenting specifically. So, with unleashing these people into the system, we expect that service part and efficiency part should only go up.

Thirdly, I think where we are creating capacities is where the demand and differentiation can be the highest. So if you see our essential business, it is fairly robust even now and that's where we are adding the most immediate new capex is going towards that factory, which will be a lead platinum-certified factory with full automation that will allow us in a product category where demand is not so bad for us to be able to demonstrate the next generation of garmenting capability with automation that is not so dependent on people where absenteeism, attrition, turnover, all of that, which plagues the industry in India is not seen.

So, I think where we are investing and how we are investing, both of these things should actually change some of the way that garmenting is being done at our mills. And with the new people and the new structure in place and the efforts going to sort of deepen our relationships with customers, I'm very optimistic about the medium term in terms of garments. But with the shift of buying and with verticality being clearly an advantage as we have seen in other markets, it is important that our capacities reflect the overall size of the organization.

And even though there may be short-term headwinds and our customers are not being able to commit on the volumes that they have sort of indicated that they would need, you will see a little bit of softness. That doesn't mean that a certain level of verticality is not important for the company. And if we are investing in the sort of down cycle, you have the opportunity to take advantage of the up cycle when it comes.

So, this is the rationale for why we are investing. And I hope I have been able to throw some colour on where we are investing, how we are investing and why we think we will succeed.

Prerna Jhunjhunwala: So, this is helpful. A follow-up on this garmenting piece is how much is the revenue share of essentials today? How do you define essentials? And eventually, where do you see essentials, portion going to be in your portfolio?

Jayesh Shah: So, Prerna, I think essentials, which is the innerwear business that we run out of our facilities in Chitradurga is about 15% of the revenue right now. We are investing in almost all the product categories that we are in be it jeans, be it shirts, be it denim, be it knits as well as in essentials. The first of it is coming in essentials, but all of them are part of the investment program.

So, we may not have a significant changes in the essential's share of the revenue, but it may so happen that for a year that revenue may be higher because the capacity is coming class. But otherwise, it's not disproportionately changing the proportion of essentials in our overall business.

Prerna Jhunjhunwala: Okay. Okay. Sir, my second question is on debt. You mentioned that long-term debt is going to come down while short-term may increase because of working capital requirements. What are the efforts we are taking on reducing on our working capital per se, including our creditor days, which is very high? And second, short-term debt generally is at a higher cost than long-term debt because of the subsidies that textile segment gets.

So why do you think it is a more risky component than the short-term debt, which will actually be higher as you grow. So controlling that will be much more important than actually long-term debt because with higher capacity utilization, long-term debt can be paid off, but working capital...

Jayesh Shah: Prerna, I'll just explain to you. So working capital, I think if you compare -- so you talked about two things, working capital creditors, which is actually, in effect, reduces the working capital on paper. The number of days that we are enjoying in working capital, if you look at last year or a year before, could be different than what you will see this year when you see the balance sheet.

Last year was a typical period where we had bought very heavily the cotton in the last few months of the year and that's how the creditors level looked very, very high. Having said that, on working capital, I think over the last 5 years, we have brought down working capital or rather drop -- increase the working capital turns from what they used to be 3.5 to 4 to now over 6.

And I think it's one of the reasons why our debt levels have come down apart from being frugal on investing in capex over the last few years. So working capital per se will be continuously, of course, reduce the -- or work to reduce the working capital. Although, with the growth for working capital to the extent of cycle, whatever maybe would increase to some extent.

Now coming to the interest rate. So we are -- as a company, we -- our borrowing costs actually because of the subvention, the interest cost on working capital is significantly lower than the long-term debt. In fact, our difference between the 2 will be as high as 4% after taking subvention into account. So working capital will not be -- in fact, one of the questions I said, will save the money if we borrow more working capital.

Today, we have a reasonably large amount of unutilized working capital lines, almost INR500 crores are unutilized because we are reasonably cash-surplus today. And as a result, we are not utilizing them fully. We will be -- our focus on keeping the debt under check doesn't go away just because we say we are going to invest. It is that we want to prioritize.

We want to prioritize both growth and continue to keep an eye on our debt and the interest cost. Now on repayments, working capital cycle of whenever you have lower sales for whatever reasons your working capital gets released. And as a result, you can always repay that. If you notice in the market, you will find that Arvind is the only company in India which works on less than 30 days of account receivable in domestic market.

I don't think there is any company other than us who would be so strict on the working capital. And we let some sales go, but not let the working capital grow. So that's the way we are performing, Prerna.

Prerna Jhunjhunwala: That's very helpful, sir. And sir, my last question is on your EBITDA margins. With this capex and the efficiencies that you are building in the system, where do we see EBITDA margins in the next two to three years' time frame given normalcy kicks in?

Jayesh Shah: Yes. I actually mentioned that that there is definitely a headroom for more, but at least 200 basis points over the next few years as the normalcy kicks in.

Moderator: Thank you. The next question is from the line of Abhishek Nigam from B&K Securities. Please go ahead.

Abhishek Nigam: Sir, if you could give more details in terms of how much of the INR600 crores capex will be spent in FY '24 and FY '25? And also how much garmenting capacity in terms of million pieces are we adding? So that's my first question.

Jayesh Shah: Sure. So the plan is for two years, as we mentioned, and we want to calibrate investments as we see how the market situation is unfolding and the demand pattern unfolds. However, given where we are and the way we have budgeted our numbers, we are hoping that we will do almost equal investments in two years. As far as capacities are concerned, as I mentioned actually these numbers. So from the -- in garments, we have two types of garments.

One is full garments, which are the number 3 report, which is 42 million to 45 million now, we want to take it to 60 million. And we have essential garments, which are small innerwear garments, which are in millions of pieces. They are currently at about 49 million capacity that we want to take to 60 million, both. So that's the capacity utilization for garments or other investments. For AMD, as we said, that this is -- this investment of about 40% of this will be good enough to -- for us to continue growing at 25% for next few years.

Abhishek Nigam: Okay. Fair enough. And I'm just curious, like you were doing capex into garmenting. Did it cross your mind that maybe we should raise with the PLI 2 and then invest or...

Jayesh Shah: So this program is for two years, and we are not investing today. This program assumes PLI 2 coming in and we would seriously evaluate that and invest in PLI 2 as we are investing in PLI 1.

Abhishek Nigam: Fair enough. And the revenue starts coming in just two years out, maybe FY '25 or something, '25 or '26?

Jayesh Shah: Partially coming in in '25. Some of the AMD investments would fortify next year as well. And the balance, of course, garment, we have headroom to grow with our internal available capacity, plus the garment capacity should come in handy later part of next year and of course, beginning the following year.

Abhishek Nigam: Fair enough. Last question from me. So AMD is doing pretty well, good growth, very stable margins and good potential market. Is there an intent sometime in the future, maybe a couple of years out to sort of unlock value, spin this off into a separate company? Is that something on your mind?

Jayesh Shah: So I think we will do what is good for the business. And of course, what is logical for either focusing on different businesses or capital. As of today, there is no such discussion in the Board to unlock that. As and when it happens, of course, you will be the first people to know.

Moderator: Thank you. The next question is from the line of Vikas from NT Asset. Please go ahead.

Vikas: A couple of questions. One is that what is the outlook on the tax rate for next year now?

Jayesh Shah: 22%.

Vikas: Okay. So still lower than the statutory 25% in...

Jayesh Shah: Yes. So we have a few subsidiary companies where in the COVID period we had made losses, where now the profits are coming in the garment factories. So we don't have tax there. So as a result, it is slightly lower than the overall statutory tax rate.

Vikas: Understood. And what's the scope of further sale of land or the real estate?

Jayesh Shah: Yes. So it is an ongoing program. We will be doing between INR50 crores and INR75 crores this year as land.

Vikas: Okay. So your guidance includes the cash flow coming in from that this year?

Jayesh Shah: Yes.

Vikas: All right. And just to clarify, you said that the garmenting capacity will increase to 60 million pieces. So is that in the next two years' time, right, the INR600 crores capex?

Jayesh Shah: Yes.

Vikas: All right. And just a final question. I mean, what is the outlook for the first half? Because you said now the discussions are taking place for the second half, but so how does the first half looks like?

Jayesh Shah: I think they will be very similar to where we are in the second half of this year, which is like a more or less constant number that you are seeing of our volumes in fabrics, wovens, denims, marginal improvement in denim. A little bit of improvement in garment as well you will see, not much, but a little bit improvement and AMD should continue to grow the speed at which we have been doing, so.

Vikas: I understand. And the denim volumes this year is like at a much lower level than even the COVID year.

Jayesh Shah: Yes.

Vikas: So, in what time frame do you think they will come back? And what kind of a drag is it -- it's there on your margins as of now from that?

Jayesh Shah: So the denim volumes, I will not be able to see when they will come back to normalcy. However, they will start looking up from, I think, Q2 of this year. See, the denim per se, even because the assets are almost written off per se, it is not a drag on the return to us. Although margins are in single-digit because the volumes are low and overhead absorption is not happening. I think as you see the volume growing, especially Q2, Q3, you will start seeing its marginal uptick on the overall textile margin.

I should mention to you that denim has become a much smaller percentage of our splits as compared to overall textile business. It used to be five years ago, more than 50%. It is today about 20% or less. So to that extent, the impact as of today is much lower on the overall margin. However, it should marginally improve as healthy quarter path.

Moderator: Thank you. The next question is from the line of Yogesh Bathia from Sequent Investment. Please go ahead.

Yogesh Bathia: Congratulations, sir, on very good set of numbers. I have this question for Mr. Punit. Sir, actually, you have developed this business of INR400 crores, INR500 crores to INR1,200 crores, the AMD business. Can you give some sense on how large is this opportunity for us? And this is my first question.

And second question is, sir, with the existing capacity in AMD, what is the capacity utilization levels at INR1,200 crores turnover right now?

Punit Lalbhai: So I think all three segments, if you look at the world over, there are billion-dollar companies existing in each of the segments we are present in. Plus, we are only scratching the surface in India for the adoption of these and use of these products. We are at a very low per capita usage of AMD-type products in India. And every country goes through that S curve beyond which the product -- the consumption goes up dramatically.

So all these things are to happen. So the long-term view is that this can be a very large opportunity. It's not a niche, tiny, small opportunity that will sort of plateau out anytime soon. Of course, we will have to do different things and invest differently in different phases of that journey between now to multiple thousands of crores. But if you look closer to home, we can say that we can try and double this business in about 4 years. That is the kind of target that we are taking, three to four years or you can say 25% CAGR, there is clear line of sight as to how we can achieve that.

Yogesh Bathia: Okay. Sir, is it -- would it be right to say that you are probably one of the largest advanced textile players in India, Advanced Material players in India?

Punit Lalbhai: Yes. There aren't very many of us and many of the players currently are very small. Of course, we are also a portfolio of businesses. But put together, if you look at the INR1,200 crores of turnover, yes, you would feature amongst the largest.

Yogesh Bathia: Okay. And sir, my second question was with the existing, what is the capacity utilization you would…

Punit Lalbhai: Yes. So see, we've been investing every year. So with the investments already done, there's always a lag between investment and full utilization. So with the investments already done, there's a headroom of 10% plus the investments that we are doing will allow us to keep growing to that 25%, right? So everything that is being done is to be able to continue to grow at 25%.

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

Surya Naik: Congrats, Punitbhai, for a good set of numbers. And just my question is that some follow-up questions to the AMD that if you go by the ministry -- government's textile missions' policies and their guidelines, we have seen great opportunity. Whereas our portfolios are quite limited to only you have categorized the three segments, but I believe those are catching to around 12 segments, what the ministry has categorized, but if we, let's say, take out 50% of that from -- for the protect business or the human protection business around 50%.

So if you -- and we can get on hardly anything out of other base, I mean, from the industrial and composite. So my point is -- and secondly, we are getting maximum from the US and 75% is export-oriented and we are not looking at the domestic opportunity as of now because, of course, as you rightly said, the gap has to be bridged and that will take time. But why we are going slow on cashing on this opportunity? So that is the first question, sir.

Punit Lalbhai: So I don't think we are doing so. I think the kind of growth that we've been able to show over the last few years has been quite significant. If you -- I think if you understand the nature of this business, this business is not something that you can put capacity today and switch on and it gets fully utilized. Many years go in sort of qualification, product spec writing, field testing.

So the life cycle of a product to get into a customer takes two years. And once you are in, of course, you are in. So you have to factor that gestation period to open new avenues. So I think in this segment, a 25% growth is -- if you are looking at an organic way is looking -- is fairly robust. Also, I think all three segments are growing quite well.

Of course, they have been started at different points in time and human protection was the first one to get started. And so it is the most mature and therefore, it has the highest share of the overall portfolio. But the others are catching up. And so as you -- as we go forward, you will see good expansion. I mean, the relative percentage may continue to remain similar because human protection is growing quite fast.

But you will see the other two segments also become larger and larger in absolute terms. So I think that concern should not be there that the other things that we are doing other than human protection are not relevant. They are quite relevant, and we have a big vision for them as well. So I hope that clarifies….

Surya Naik: No, I mean you mentioned in the -- your PPT that you are going to introduce new product segments and expand the support of work that is there. But certain segments like [inaudible 1:03:19] and all, though we are present, but there are a lot of opportunities to capture. And even, sir, just to get your understanding, there are certain subsidiaries or JV with the case of, let's say, Adient in the auto seating segment.

There, we have not started yet, I mean, in fully. So why different subsidiaries and the JVs are yet to take off? So are we still experimenting on the kilo basis, I mean on the pharma side, kilo basis and yet to touch the ton kind of basis fully. That is my understanding. Just your understanding, sir.

Jayesh Shah: I think, as you very rightly said, the Advanced Materials or technical textiles, things are very large fields. And we have just about begun a 5-year-old business with us. And we have started from the strength that we have, which is using the textile as a trend and our infrastructure and knowledge of textile as a trend to develop the lines of businesses that we are in.

So they are more starting from weaving technologies and spinning technologies where we are -- and of course, finishing technologies where we are already have -- it's a unique situation that we are in. I don't think anywhere in the world, you will see textile company graduating into Advanced Material. But we have used our infrastructure of textiles to grow this business.

Now today, as Punit said, there is and as we have mentioned in our presentation that there is -- there are 2 ways to grow. One is to grow existing lines of business which are where we will want to take higher share of wallet from each of our developed customers. And that's happening and that's where the maximum growth is coming as we -- as you see the 20%, 25% growth that we are doing.

Going forward, at some point and that's why really kind of spend quite amount of money and it actually impacts our overall margin that we declare for AMD business. On various initiatives that we are doing, be it Adient and our initiative, be it several other things that we are doing as a division, where we are doing where the new product categories can get introduced. And it's a constant activity where we would want to experiment.

If we fail, we'll not do it. If we succeed, we'll start. And the next as the presentation also shows the next line of growth from where we are would be to get into newer categories and that's what government of India is also given larger number of categories and same are the true categories for us. So this is the beginning for our company.

I think we are in the first decade of our AMD business. And I think as Punit said, it is, in a way, a very large opportunity and will continue to grow and not be slow, but not rush into something and not being successful, so...

Surya Naik: But Jayeshbhai, hear what Punitbhai has said that despite our collaborations with the leading innovators of the world like PG group or OG Group, Adient, all those, why we take time to get our product approved in the international market, especially a developed market? Why it should not be hastened off? So that is my question. So what Punitbhai said, no...

Jayesh Shah: No. So it is not automatic because we have the collaborations, it is helping us to get into the segment with the customers, but it does not mean that we get immediate PQ or a qualification just because we have a collaboration. It helps, but it doesn't mean because it is produced in a different environment, in a different country, in a different region. So it does take time. I mean...

Punit Lalbhai: It has to go through a cycle in customer approval, stabilization.

Jayesh Shah: A lot that we are doing are something to do with managing human life. So if you see in pharmaceutical, every plant gets qualification. That doesn't mean that if a company produces product in one plant, then automatically second plant can produce. So every plant has an FDA approval. Similarly for us, for every product, for every customer, there is a approval process, which we cannot, I mean, do anything about.

Surya Naik: So except for the PG subsidiary, we have any traction in other subsidiaries, OG, Polser?

Punit Lalbhai: We have only two joint ventures which are functional and which we intend to both grow. One is OG. Arvind OG nonwoven, which is growing extremely well. We've added a second line there. So we have almost doubled our capacity. And PD, which is doing year-on-year improvement. So both these are very robust. Growth is very healthy, and profitability is also very good.

Surya Naik: Okay. And sir, regarding the Arvind Envisol, the peer groups are growing, especially in the ZLD space. So why we are not able to grow to that level? So is there any issue or our surplus is not the rate movement, and it is actually not actually profitable like other verticals?

Punit Lalbhai: I think we are growing at a healthy pace there. I think this business being a project business, we have decided to sort of grow it at an even pace and not focus disproportionate time, capex and take disproportionate risk in this business. But whatever we are doing is shaping up quite well. It's generating positive cash flow and it's helping us build a good sort of name in the marketplace.

Surya Naik: Okay. Sir, regarding the capacity announcement, our current capacity is around 50 million pieces. So is it going to rise by on the 10 million with the expansion or...

Punit Lalbhai: Current capacity is around more like 40 million, 45 million -- 44 million, 45 million pieces and it will go to about 61 million. So that's almost like 16 million pieces on this base. That's quite a large...

Jayesh Shah: similarly for innerwear, we are adding from 49 million to 60 million. So both are getting added over next two years.

Surya Naik: Okay. Sir, with the denim bottoming out, so can we assume that the current quarterly run rate to be sustained and it can improve maybe -- I mean, I agree with Punitbhai that in near term, there is some challenges, but, no, can we expect that going to be current run rate...

Jayesh Shah: Punitji answered this question, I'm not sure whether you were there at that point in time.

Punit Lalbhai: I think it will improve going forward, you will see small but steady improvement.

Moderator: Thank you. The next question is from the line of Mithun Aswath from Kivah Advisors. Please go ahead.

Mithun Aswath: Good results. Just wanted to understand on this AMD business, you mentioned there are several billion-dollar companies globally in this space. I just wanted to understand for a customer in the U.S., why would he choose Indian companies to supply to them? Is it the cost efficiency? And how are we competing in this market because despite the global slowdown of turbulence, this is one segment which you continue to be quite positive on. So I just want to understand what is driving this demand? Is it substitution? Or is there an overall growth in the market? What is this, sir?

Punit Lalbhai: Excellent. So there are many things. So let me answer this taking the example of human protection, so that many points get made clear. So one, I think the overall market is growing. This is growing better than, say, a conventional textile market. So there is room for newer capacity to come in.

And it's not just taking away market share from incumbents. Though I would say that we are very successful in even taking away market share from some of the best players in the world. And there are 2 reasons for that. The first reason, of course, is the one you mentioned that there is definitely a cost arbitrage from India and that cost arbitrage is significant because nobody would change only for a few cents on the dollar when a product is very critical to an operation or critical to human life.

So there has to be a significant delta, and there is a significant delta, but that's not the main reason. The main reason is that our ability to innovate in this sector is probably better than anybody else because if you look at the pure human protection players that don't have a textile backbone like we do, we have probably every textile machine known to man.

And with that asset base, I'm able to create yarns, I'm able to create finishes and I'm able to create products that my other competitors are unable to create. So there is true innovation that's going on. We have several products that are globally patented. And some of these patented products have won awards in international shows as well.

So there is a very positive relationship. It's not a sourcing relationship. It's a co-creation relationship that we have with many of the safety brands globally, where we pick together, we design a product that is specifically made for the customers they have in mind. So I think both these factors allow us to be sort of winning in the marketplace.

And I think this trend should continue because to replicate our kind of cost and innovation sort of formula is going to be not so easy.

Mithun Aswath: Okay. That sounds very positive. So are other players also in India sensing this opportunity and capitalizing...

Punit Lalbhai: I think people will sense, but it took us a better part of a decade to sort of become significant players in this and that is with the kind of textile backbone and financial power that we have. So -- and so for anybody who's starting this journey out now, it's going to take a better part of a decade to reach there because it will require winning trust of very discerning customers. It would require a huge amount of upfront spend on product development.

There's a huge learning curve, okay, that can be shortened by looking at somebody else's experience, but it will still not be insignificant in terms of actually manufacturing the products that you can trust somebody's life on. So I think the -- it's not so easy as just spending the money and you are able to create this market. There's a lot more that goes on, on product development, on trust building, on developing systems and processes and on sort of tweaking your capabilities from textiles, which is a very different mindset to Advanced Materials.

Mithun Aswath: Right. And if you can just explain to us in terms of a global context, is the human protection business the largest in this sort of sales? Or is it just that you've entered this, and this is your...

Punit Lalbhai: We definitely feature in the top 10 globally. But there is, of course, considerable distance between us and the number 1. And the big difference is that a lot of this product is still protected. I'm talking about human protection specifically; it's protected by law that union workers have to be sort of clothed in made in U.S. product or army contracts are restricted to certain suppliers only. And some of these army contracts are massive. They run into hundreds of millions just one contract.

So those kind of companies are there that are bigger than us. But I think an export-driven company, we would feature amongst some of the prominent names now, at least in human protection. But of course, there's still a long way to go and there is a long -- bigger potential for us to also tap and to bridge that gap between us and the largest players. So to answer your question, we are now a significant player, but to become one of the largest, there is still some distance to cover.

Mithun Aswath: No, sorry, I also wanted to understand the human protection in the Advanced Materials globally, the biggest opportunity or industrial and composites also a very significant pie...

Punit Lalbhai: I think all of them are very large. So if you take the example of Compass, if you get into aerospace, for example, that's a huge -- I mean you're making 777 Dreamliner for Airbus. That's a massive size of each order would run into hundreds of millions. So there is -- it depends on what route you take. So all of them can be quite large.

And our sort of focus area, if you look at -- if I go segment by segment, human protection is clear because I just spoke about it. But if you look at industrial, we are in a slightly more niche space where we are doing very high-margin products that have a slightly slower growth than, say, composites and human protection.

But that said, it will still be pretty robust growth. So there, the end goal will probably not be as large as human protection or composites. But composites with sports, with mass transportation and with industrial composites, all 3, we can be, again, very fast and large growth there. So each of these have a different profile and a different end use. And each of them can be quite sizable at the endpoint or at maturity, let's say.

Mithun Aswath: Right. Just the last one. I just wanted to understand if you can share more material on this business next time in your presentation, it would be great to understand the specific business in greater depth. And also wanted to know maybe once in 2, 3 years' time when this becomes that INR2,500 crores sort of business, do you -- are you looking at spinning this off into a separate company because obviously, it would be more valuable if listed separately? So those are the 2 questions.

Punit Lalbhai: So obviously, we will do whatever is in the best interest of shareholders to unlock value at the right time. So for now we are just focusing on sort of building this business to something that can deliver the promise in the next 3 years that we are trying to guide the market towards. So while we've not thought about it, of course, we will consider it at the appropriate time.

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

Bimal Sampat: So I just wanted to understand, from our textile production, denim, how much are we converting to garments?

Jayesh Shah: About 15%.

Bimal Sampat: 15%. And we also have a retail initiative now. I mean I just read in Bangalore, we have opened a big retail store for fabric and all. So how much is fabric retailing?

Punit Lalbhai: I think we have to talk about the B2C business as a whole. So there is about a INR500 crores to INR600 crores business that sells fabric over the counter that goes to 10,000 different mom-and-pop-type of shops, small, small, small stores across the country, plus another INR150 crores to INR200 crores -- I mean, 100...

Bimal Sampat: I'm specifically asking about Arvind store.

Punit Lalbhai: Okay. So Jayesh, can you just speak a little bit about the size of Arvind store?

Jayesh Shah: Yes. So our retail -- pure retail business is about INR100 crores now. Overall, B2C business is about INR600 crores, as Punit mentioned, and it is growing at about 20%.

Bimal Sampat: Okay. So slowly, I mean we will be more of a B2C company, at least I'm talking about our textile and garment...

Jayesh Shah: So the component of B2C business will keep rising. But as you know, it is a INR8,000 crores, INR7,000 crores, INR8,000 crores...

Bimal Sampat: Correct. No, I'm only talking about the...

Jayesh Shah: Is relatively a small number, but we are focused on making this business fairly large over a period of time and continue to grow at 20%, 25%.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Samir Agrawal for closing comments.

Samir Agrawal: Yes. Thank you, everybody, for joining us today and for a [inaudible 1:22:57] an engaging discussion. We'll meet you all in one more quarter from now. Thanks, and have a good evening.

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