



“Arvind Limited October to December 2018 Quarter
Financial Year 2018-2019 Post-Results Analysts and
Investors 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 October to December 2018 Quarter Financial Year 2018-2019 of 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, please signal an operator by pressing ‘*’ and then ‘0’ on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Samir Agrawal - Head of Strategy at Arvind Limited. Thank you and over to you, sir!

Samir Agrawal: Good afternoon, everybody and thank you for participating in this third quarter investor briefing call for Arvind Limited. Joining me today is Mr. Jayesh Shah - Executive Director and the Group CFO. As you all know the demerger of Arvind Fashions and Anup Engineering became effective as of 29th November, 2018. Arvind Limited stock has been trading ex-demerger since then. We expect Arvind Fashions and Anup Engineering stocks to be listed and start trading independently in next few weeks. The reported financial this quarter as a result of this demerger show revenue expenses and profits of continuing business of Arvind Limited. The PBT and PAT figures of discontinued business for current quarter do not include engineering business and include only 2 months of apparel business. Therefore, they are not comparable to the quarter 3 figures of the last year. In terms of results we have had mixed outcome.

Let me start by sharing the financial results for the quarter:

As you have seen the overall revenues remain nearly flat to the similar quarter in the previous year at Rs. 1,680 crores. The EBITDA margin though, dropped by almost 120 basis points to 8.9%. Textile revenues were lower by 7% this quarter primarily because of the sharp decline in the denim sales volumes. Few of our large European customers undertook inventory correction. Many of few who are tracking this industry would have already pick this up on Google that somebody has prominent as H&M has been grabbing with their \$4 billion inventory loss and many others who are our permanent customers also had similar problems. And because of that we saw a one-time dip in the demand for denim coming from our European customers. In addition we also took some decisions to hold prices in few other segments of our customers and hided to forego some volumes. As a combined effect, we saw this one-time dip in the denim volumes which we are already starting to see the reversal. The good news is that our overall business continued to stay steady and strong and grew by 6%. Garment manufacturing volume was up by 11% as many of our new facilities are starting to come live.

In terms of margins:

The textile segment margin was lower at 10.5% compared to 14%. Three factors, one is like we said we have multiple Greenfield site coming up in our garment manufacturing business area in Gujarat, Jharkhand, Karnataka and this will expand our garment thing capacity over time from about 30 million pieces to 91 million pieces in 3 years. So, the preoperative costs and losses as

a result of these were slightly higher than what we have planned. So, that was one big factor. In addition, we also had some expenses which are resulted from the restructuring of our fabric retail business. So, we retail Arvind branded fabrics through our MBOs and exclusive stores. And we did some restructuring in terms of converting many of our company owned stores to franchisee operations and there were cost associated with that. As a result of these factors the textile margins did see them some dip but as the cycle revives we expect this to improve significantly soon. Talking about our other segment advance materials, it has been seeing a robust growth and in this quarter it saw the topline grow by 30% plus. The EBITDA margin also increase sharply compared to our minor negative to Rs. 16 to a positive in this quarter this year. As operating revenues are kicked in, more and more matured businesses are turning around.

Just as a recap, for the reference this business:

The AMD business had clogged revenues of 487 crores last year and EBITDA was negative at 7 crores for the whole of year. So, this business is on track to reach a good 800 crores to 900 crores run rate next year. The Arvind Limited debt at the end of the quarter was 2,822 crores. We do not anticipate any significant change in this number during the current financial year. Now looking ahead, we do expect like I said earlier that the denim volumes will start reviving and we are already seeing some signs. Advanced materials will grow at 24% for the overall year resulting in the full revenue for the Arvind Limited to grow at 5% for the entire year as against 10% we had guided earlier. Textile margins will be slightly lower and that of advanced materials slightly higher indicated earlier. So, the net impact will be a small improvement in the EBITDA by about 0.3% for the entire year. So, while the financial results were subdued due to some one-time events, we are having some very encouraging outcomes on some of the initiatives which we are doing. And I will just like to share 2 or 3 examples.

So, as we have been indicating in our past commentary that in terms of the product mix, this whole sportswear, activewear, athleisure segment has been growing disproportionately all over the world. I mean, not just in India but also in the key markets in Europe and US. So, we have started this line of business a few quarters back and our initial results have been very strong both on the product front and the market front. So, we started with simply simple entry level products which were made of polyester but as we speak the products which are now coming out with nylon, spandex and other advanced materials is being received very well by the market. In fact, almost every major international sports brand operating in India is talking to us and for one of the major MNC player 70% of their product range has been approved to be delivered by Arvind. Similarly, we also have been working on de-risking the whole denim business by launching a line of indigo-knit products. So, these are indigo dyed, just like denim is. So, they have that sensibility but then they offer significantly better stretch properties and comfort which is suitable to the current life style.

So, again here we have been working with all our traditional large global denim customers as well as many Indian retailers and the initial trial orders are in the works or the product

development is happening. And the traction is quite but in fact, we already have delivered our first batch of seamless knitted products which require you to skip the process of weaving, you just go straight from yarn to garment. So, that line is already active now. On advanced materials as well there are some really good things happening in our sites. So, in the human protection which is where we make specialty clothing for fire retardant fabrics, workwear, chemical biological production, etc. we are seeing some really stepped up traction in the US market. So, there are 4 main distributors who account for bulk of the market and with all 4 of them we are having initial orders which have been executed. So, that should help us unlock the US market which is a big segment for that whole product line in next 2 or 3 quarters. And similarly for composites, we have been producing a lot of different varieties of composites but in recent past we have started to move towards a much higher value added products which require better accuracy and more complicate profiles. So, we have tied up with an Italian company called Top Glass which has been working with us actively and the initial results are starting to come in.

Finally, in terms of a small anecdote we have been chosen by one of our largest textile customers to be their global partner in their environmental programs. So, they have co-funded a sewage treatment plant in our factory, so that a lot of fresh water which was consumed in textile washing can be substituted with the sewage-treated water. And this is going to help them meet 35% of their own target for the full world. So, this whole facility is being set up in a co-funded manner as center of excellence, which will be showed up to the other major global customers as well. So we, with currency having depreciated to absorb the cost push and all these initiatives starting to show good outcomes, we feel that the coming quarters and years should be very exciting. Now I am going to pause and invite you to ask any questions which you may have. The line is open.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session. Our first question is from the line of Nihal Jham of Edelweiss. Please go ahead.

Nihal Jham: My first question was on the denim segment. Since, the last one year there has been an issue of destocking and GST which has impacted performance and now I think there is a global phenomenon which has impacted this segment. So, I just wanted your outlook because I think we have only been changing it that where do you think will both the segments revive and what is the outlook for the denim segment at this point in time according to you?

Jayesh Shah: So, I think the current quarter issue and the ongoing challenges in the denim, in some way are not correlated. This is a very peculiar situation that once in few years sometimes a customer who is a major one if there is a correction in inventory and as a result if the orders placed are less you see a blip in your quarterly performance and that is what happened in this quarter. If I were to say, where would the quarter 4 as opposed to quarter 3 will go, if you will see a normalized 22 million-23 million kind of sales in quarter 4 which is a normal level at which we have been selling for now many years. As far as demand for denim, it is not a demand for denim globally as or it is just a peculiar situation with our customer that has resulted into this. As far as Indian

supply side is concerned and I think demand side there is absolutely no problem demand in denim as in denim is growing at a very fast pace in country. However, the supply overhangs continues and we are continuing to remain in the niche market and not letting the contributions or price getting affected and most importantly not getting the working capital affected. So, as a result we have being selective about selling. However, absolutely there is no problem on the demand side. The supply overhang in India will continue. So, to that extent we would rely more on our international market and as a result we do not really see a major challenge as far as being at on a, in a medium term being able to sell the quantities that we produce. More importantly, I think by end of next year you will see that we would have at least built a capacity, if not sold anything of that magnitude of close to 1.5 of 18 million to 20 million garments for on export side and for domestic markets. So, that been itself would be like more than 25%-27% of our denim volume. That makes us even more preferred by our customer of course our sales will not to be that extent because we would be ramping the capacity up as we are investing right now. But so we are very clear that 2 or 3 pronged attack, (a) selling more in international market, (b) converting more fabric into garments and (c) shifting our product mix from a purely woven denim to a knit denim which is a very not, it is again a very differentiated product which my colleague Samir alluded earlier would allow or would ensure that we are at very high capacity utilization. So, we are not overtly concerned but on industry front the challenge of oversupply and overhang in Indian market for India we will continue.

Nihal Jham:

Jayesh bhai, just a second question on this that if we look at our margins in the textile business even before, say the company got demerged, we used to do 17%-18% and somehow it is gradually fallen now. So, would it be right to say that most of this contraction in margin is more or less being led by the denim segment?

Jayesh Shah:

No, that is not true. I think, it is led by a mixture of the 2. One, if you look at last 1 and 1.5 years we have been selling at a currency rate which is not commensurate with the cost push that we have seen, (a) because either rates were unfavorable and (b) there were some kind of hedges that we had till December. So, if you, for example, where to ignore that you would have not, there are lot of cost push is also that came but we commensurate Dollar returns did not come to us at least. So, that is one reason. The second reason is that every ramp up the garment volume over next 2 years, the weighted average margin, for example even if I were to see, say first 9 months of actual, if you just look at the fabric margin versus the overall textile margin it will be around 14% or thereabouts, 13% to 14% and not 11 or 12 that you see as a combined margin. So, as we are adding garment capacity, the weighted average margins tend to be lower because garment is in 8%-10% kind of a margin, not on the return basis but on the EBITDA margin. So, a combination of Dollar-Rupee and a weighted average is there what would be the reasons why the margins are low. Just to preempt a question and say where could these margins go say in quarter 4 for example we are earning to be closer to 13 is not 13 and I think, as what Samir told you that the once these preops and some of those things are behind us. You will see margin improvement going forward over the next 3 to 4 quarters.

- Nihal Jham:** Just the last follow up that for my understanding, I assume that even denim margin used to be close to fabric or even higher but have they slipped say sharply even below 10% in the current scenario?
- Jayesh Shah:** No, at all. It is the high. So, I mean absolutely, overall denim margins, fabric margins all, I mean, all across all fabrics. Our margins are between 13% and 18% and there are nothing like a 10% in our ...
- Moderator:** Thank you. We will take the next question from the line of Maulik Patel from Equirus Securities. Please go ahead.
- Maulik Patel:** Jayesh bhai, when you mentioned about this trend of the garment operation and then the capacity in garment will come in the phases. Does that mean that preoperative expenses will continue piling up? Though, the little drop that could be lower or the impact of that could be lower, but will they continue till the time each of your phases will come?
- Jayesh Shah:** So, there are on an ongoing basis for next, almost like next 2 years we would be in the investment mode for garments because we are looking at a very fast pace increase in our garment capacity. One of the things as you possibly know, I know that you are asking a cost related question and I am answering a sales related question. But one of the key reasons why we believe that the vertically integrated garment coming from fabric to garment company will have much more predictable sales because you would be providing incredible amount of service to your customer. And as a result we have taken a call that one of the things that we will be doing to secure our sales and as a result earning is to invest in garments. We have since we decided to demerge the brand and retail business and started to invest or decided to put money into the garment business, it is a bulk stock investment. So right now, we are investing in 3 or 4 states in India, in Ethiopia at a time. This is a very, I would say a lopsided investment period. It is not going to be that for next 12 months to next 24 months. It will be so lopsided. It will continue but the scale and the size would be much lower as we progress over the period. So, to answer your question there would be preops that will continue but I would think that investors would want to see what happens as we reach reasonable capacity utilization at that level how secure and how robust the business of Arvind would be.
- Maulik Patel:** Actually, in your presentation, you mentioned that the garment ramp up, the capacity ramp up has been delayed by few months.
- Jayesh Shah:** Yes.
- Maulik Patel:** So, what could be that reason for the delay? Is that some ...
- Jayesh Shah:** So, lot of things for example, there are in different states as we are going and experiencing. There could be different things like, the garment every state has announced different garment packages

and their registration sometimes can take more than **no longer** periods than what we might have expected. In many places to hasten the process of garment investment we are renting out premises instead of building because it takes longer to build and your own plant, now those facilities sometimes do not meet some norms of safety and also various reasons in different parts. Good news is that we are behind it. I think, we are, all plants are currently in implementation mode and it should start in very trial-run shipments have begun and I think starting April onwards we will gradually get into commercial production. So, I think those issues are now at least not recurring in nature.

Maulik Patel: Can you give me the breakup of what was the CAPEX we have done in this entity for the 9 months? And what is the plan for FY19 and FY20? And which all the ...

Jayesh Shah: Currently this year we were hoping to invest 500 crores but because of the delays I think, we would be below that may be like 400 crores or 425 crores of CAPEX. I think next year would be a similar number.

Maulik Patel: So, both the year, it could be close to around 900 crores or lower than that number?

Jayesh Shah: Yes.

Maulik Patel: And how much we have spent this year, any idea for the first 9 months?

Jayesh Shah: As I said that we would be close to, between 400 and 425 by end of the year.

Moderator: Thank you. Our next question is from the line of Pritesh Chheda of Lucky Investment Managers. Please go ahead.

Pritesh Chheda: Sir, you called out that the advanced material revenue will be 800 crores next year. So, what will be the corresponding margins from that 800 crores? And secondly on the textiles side what kind of growth and margin do you see in FY20?

Management: It is difficult to give on a yearly number and exact margin numbers but I think our plant has been to grow topline of our textile already a large textile base by about 10%. And I think we may be near there if not starting April quarter maybe in the second half of next year. As far as I think, the margins are concerned for the AM, Advanced Material division it is going to scale up as we move forward. Again in Advance Material there are businesses which already at in excess of 16%-17% margin and there are businesses we are still losing because they are smaller in size. And we are spending a lot of disproportionate amount to set the business up. So, again in 800 crores there would be good amount of businesses which would be losing. So, blended margin could be at least what we are on this year or more but I think they are still not the peak margins. The peak margins could be as high as 15% to 16%.

- Pritesh Chheda:** And I actually could not catch your answer on the EBITDA margins which fell down from 16% to 10%. So, I am unable to comprehend.
- Jayesh Shah:** we can talk offline because the lot of people will feel, felt borrowing if I repeat the answer. But we will talk about it offline.
- Pritesh Chheda:** And lastly sir, on the CAPEX you said 425, 425 what should be the debt or is it the peak debt in the business?
- Jayesh Shah:** Yes, the debt is unlikely to this year, I mean there is a marginal increase from 2,700 to 2,800 right now. We do not see any significant date change this year.
- Moderator:** Thank you. Our next question is from the line of Kaustubh Pawaskar from Sharekhan Limited. Please go ahead.
- Kaustubh Pawaskar:** Just to continue with the margin position, on the cost element, were there any one-off during the quarter which will not continuing going ahead or ...
- Jayesh Shah:** As my colleague mentioned in the opening statement that we restructured our retail business, we are currently is about, annually about 700 crores of retail business which is mostly within the woven business that we do. We operated that business largely with our own stores and also multi-brand stores and we took a call that we would not do retailing ourselves but focus only on wholesaling. So, we restructured that business and converted practically most of the own stores into franchise operational and there is a loss of close to about 20 crores. Out of which I think, we booked about 10 in the current quarter and the other 10 will come over next couple of quarters.
- Kaustubh Pawaskar:** And sir, my next question is on your others like, they are also we have seen decline in revenues. So, can you just throw some light on your water business and how the others portion would grow because that is also ...
- Jayesh Shah:** So others includes, I think the few something which we will do on telecom and they are water business. Our water business season, EPC business, so it will fluctuate on a quarterly basis based on completion of activities. This year we expect the water business to be 375 odd crores by end of this year. And we are building our capabilities to continue this business at this and higher levels over next few years.
- Kaustubh Pawaskar:** And sir, one last on the e-commerce front there also we were seeing that business was doing some losses. So, there where can we ...
- Jayesh Shah:** That losses or investment thing to e-com activity that amount has become insignificant. It is not more than 3 crores to 4 crores a quarter or maybe 4 crores to 5 crores, I am sorry a quarter. And we believe that that number will almost vanish over next 1 year.

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

Samir Agrawal: Thank you all for joining the call today. We will see you next quarter.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Arvind Limited, that concludes this conference. Thank you for joining us, you may now disconnect your line.