

18th December, 2019

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

Subject: Transcript of quarter and half year ended 30th September, 2019 earnings conference call held on 08th November, 2019

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, kindly find enclosed a transcript of the earnings conference call for the quarter and half year ended 30th September, 2019 which was held on Friday, 08th November, 2019. The same is also available on the website of the Company i.e., www.sutlejtextiles.com.

The conference call held on 08th November, 2019, as per the Transcript enclosed incorporates mainly the highlights of financial results upto 30th September, 2019, and other related information which is already in public domain and/or made available / uploaded on the Company's website.

Please take the same on record.

Thanking you

Yours faithfully
For Sutlej Textiles and Industries Limited



Bipeen Valame
Wholetime Director and CFO





“Sutlej Textiles and Industries Limited
Q2 FY2020 Earnings Conference Call”

November 08, 2019



**MANAGEMENT: MR. S. K. KHANDELIA - PRESIDENT & CHIEF EXECUTIVE
OFFICER - SUTLEJ TEXTILES AND INDUSTRIES LIMITED
MR. BIPEEN VALAME – WHOLE TIME DIRECTOR & CHIEF
FINANCIAL OFFICER – SUTLEJ TEXTILES AND INDUSTRIES
LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Sutlej Textiles and Industries Limited Q2 FY2020 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” and then “0” on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Bipeen Valame, Whole-time Director and CFO. Thank you and over to you Sir!

Bipeen Valame: Thanks and good afternoon everyone. I welcome you all to the Earning Conference Call of Sutlej Textiles and Industries Limited half yearly and quarter ended on September 30, 2019. I have with me Shri. S. K. Khandelia, President & CEO for of Sutlej Textiles and our Stellar IR advisors who manage our Investor Relationship Advisory. The result presentation has been uploaded on the exchanges and I hope everyone had an opportunity to go through it.

Commenting on the performance during the first half ending on current year financial year, the company reported consolidated revenue of Rs. 1311 Crores during H1 FY2020 against Rs. 1345 Crores in H1 FY2019. There is a marginal drop of 3% on account of global slowdown in the export and domestic market. The yarn volume for the half year was 54995 metric tonne compared to 55793 metric tonne in same period last year. The company is focused on home textile business and committed to grow the business with better design, marketing effort and larger product portfolio. We saw some improvement in current quarter in realization in domestic and export market and more job work orders, which resulted into reduction in losses for home textile. We expect a better volume growth and overall performance going forward.

EBITDA for the half year ended was Rs 112 Crores against Rs 128 Crores, again there is a drop because of the market condition, and we saw a drop in EBITDA. We saw some increase in wages on account of DA, bonuses, etc., which is the main reason for increase in employment cost. However, the power cost remains stable for the quarters. Profit after tax was Rs 24 Crores during the half year ended compared to Rs 33 Crores during the same period previous year. On sequential basis, consolidated sales were down by 3% to Rs 644 Crores during Q2 FY2020 as against Rs 667 Crores in Q1 FY2020. However, EBITDA margins witnessed 218 basis point improvement at 9.6% in Q2 FY2020 as against 7.5% in Q1 FY2020.

The main reason for improvement in margin is softening of raw material prices, which has been witnessed in the quarter and better realization in manmade fiber compared to the drop in RM prices. We have witnessed some minor drop of around a percentile maybe in capacity due to festive seasons, elections, etc., that compared to last quarter capacity utilization, has improved and we had a capacity utilization of around 93.5%. We could achieve significant reduction in finance cost due to efficient working capital management, reduction in inventory, better collection of government dues, reduction in overall debt, which will enable the company to enhance its profitability going forward. I would like to highlight that we have successfully been able to curtail the overall debt on a consolidated level of around

780 Crores, which is a reduction of 136 Crores over the past one year. The debt equity ratio is far below one and currently around 0.82. I would now request, Shri Khandelaji to share the business outlook and industry scenario and then we can open the floor for the question and answer. Thank you and over to Mr. Khandelia!

S. K. Khandelia:

Thank you Bipeen. Good afternoon to all of you and I thank you very much for joining us on this conference call. As you all aware that the overall textile and clothing industry has not been doing well since last two-and-a-half years rather last three years now since the time demonetization happened, then further impacted by the GST was rolled out as major Indian textile sector is in unorganized sector, so all the downstream players whether it is weaving, processing and garmenting, mainly unorganized and smaller NEIA segment, has taken a big toll in last two-and-a-half years, but I am happy to share despite all the challenges during last two-and-a-half years in addition to other challenges like global slowdown and the overall subdued demand we have been able to continuously generate profits, continuously able to run our factories to the full capacity and could sell whatever we could manufacture and in fact we have been able to reduce our all sorts of inventories and working capital substantially, which has resulted in substantial fall in our overall debts and has improved our debt equity ratio further, I would like to say this is the test of the resilience of our business model, but despite all the challenges our business model came out strong and that is the resilience, which we have. Now, for the second quarter and first half, I will read out a statement, which was made by our chairman while commenting on the results, which we might have seen also, but that summarizes the whole situation, which is going on at present and our position therein, so I just quote what our chairman said. "The challenging business environment continued with subdued domestic demand and falling exports due to the global slowdown. Sutlej continued its efforts of cost cutting, improving efficiencies, debottlenecking and realigning its product mix; this has helped us in maintaining profitability and performs better than the industry average". We believe that while the present challengers are likely to continue in short-term, our business fundamentals are strong which will enable Sutlej to deliver a strong performance once the economic scenario improves. After this I would like to comment on things you must have noticed from the results and in our home textile business, the losses have started coming down substantially. If you remember, in my earlier conference, I had mentioned that we had consciously decided that we will reposition ourselves, we will not manufacture the very low category material in the sense of the low chain material and instead we will try to position ourselves on little higher bracket, similarly as you are aware that we had acquired American Silk Mills. The synergy of American Silk Mills and Sutlej has started delivering some results, some of which I will address, so these two divisions of our home textile has started improving their performance, but the performance improvement will come in due course of time, which is one things to drive the overall results, improvement will come in two to three years because the time lag in case of home textile from sampling to the commercial order is very long, it takes about 8-9 months to fructify one sample to get a commercial order and then once you get that order then you will start getting the repeat orders, so this development, which has taken place in recent times, now we have also decided to have our own trend and we hope that in Q3 we are likely to start vending of our home

textile products and by that we plan to go to some of the retailers and that will also add value to our own realizations in home textile business. I have to say that regarding alignment of Damanganga Home Textiles with American Silk Mills, we have started manufacturing some of the material for American Silk Mills and it will be sold in USA as ASM Loft, which is a separate plan they have, we are not going to disturb our ASM brand so that will continue because this is at a very high margin business and, so that is going on. Secondly we will also be marketing ASM products in India under their brand that is ASM and that will be mainly outdoor and indoor material and high evaluated items, but these things are likely to take some more time, but I am just telling you that these are the plus points, which are happening in our home textile division. In case of our spinning I have already mentioned that we have a lot of resilience in our business and we get that resilience because of our modern manufacturing plants and then we have lot of flexibilities, suppose one product is not doing well we are able to switch over to other products. As you must have noticed that cotton yarn is not doing well these days though we have very hardly any negligible quantity of cotton yarn, which is not doing well and that is what has come down by 40% in the last six months and many of the gray cotton yarn mills are bleeding and perhaps some might have closed and some are underutilizing their capacities, but since we were in a value added melange yarn since overall cotton yarn was down and since the world economy is not doing well there has been some pressure on mélangé yarn business this time. Despite that since we are synthetic, we have mélangé and so many products that is why we have been able to do much better in Q2 when it is compared to Q1 despite all the challenges, which were manifested in second quarter. In first quarter, as Bipeen has mentioned there were some reductions and other labor shortages, so the results of that were not that good. Similarly in case of revenue, you must have noticed that revenue witnessed a drop of Rs 22- Rs 23 crore in Q2FY20 as compared to Q1FY20. there are many reasons for that the main reason is that the fall in the raw material rates. The cost of that of course just because yarn rate is not falling to that extent because we have some pricing power in certain products, but still since there has been substantial fall in the cost of raw material rates the depth of that has come. In terms of quantity, that depends upon the count, which counts to manufacturing and other things, so in quantity there is not much variation, but the revenue figures are less because of that fall of the average rates and the base of the fall on the rates of raw material and nothing else. This is what I had to say and now the floor is open for any question, clarification and we are glad to provide all the verifications and answers to all your queries. Thank you very much.

Moderator:

Thank you. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Awanish Chandra from East India Securities. Please go ahead.

Awanish Chandra:

Thank you very much Khandelia Sir and Bipeenji taking my question and congratulations on good margin expansion. Sir most of the companies we are witnessing margin deterioration in this environment could you just explain what led to this kind of margin expansion though you have mentioned in the presentation it is on RM cost to overall realization than RM any other expenses, which helped this margin expansion?

Bipeen Valame: It is not only the margin expansion because of the raw material, it is because of introduction of many value added products in yarn category, which we have done. Secondly as I mentioned is our Damanganga Home Textiles losses have come down, so you must have seen it in the segment results and then we have been continuously telling in our conference calls that we are tightening our belt because of the tight situations and the economic conditions and other things, we have been tightening our belt further. We have been trying to push our efficiencies further though we were already at a very high level, but still we were trying to push up, as we always believe that there is always a scope for improvement, so that all these things have helped us in improving our margins and those are I believe that except market conditions and other things, which keep on changing, raw material prices, yarn prices, demand supply, but internal efficiencies and other things, which we have gained are on a sustainable basis.

Awanish Chandra: I can understand the internal efficiencies, but your view on the yarn prices in general in coming quarters and for the cotton whatever production we have, do you think that from here onwards cotton prices will soften up or it will remain resilient?

Bipeen Valame: The cotton fiber prices are concerned those are already very soft, those are rather ruling below the support price at the moment and still this year we are going to have better crop size and much better than last year. As per present indications thought it is still unclear how much crop size will be there because of the extended rains and other issues, but still trade believe it will be around 370 as against about 312 plus last year, so we will have ample cotton this year and on the other hand the consumption is down because many mills are closing down particularly gray cotton yarn, so the cotton prices are likely to remain range bound and my take at this point of time that in cotton prices the biggest issue is the US China trade war, how does it progress further because China has last year imposed 25% duty on import of US cotton that has brought down the international pricing to very low levels, but if that happens then the cotton prices may go up, but that is the only one question mark and what will be the effect of these extended rents on the ultimate yield and the quality and other thing that is the second question mark, otherwise overall I feel that the cotton thing will be better, so another thing about we have said the gray cotton yarn margins, which will be hardly manufactured a very little quantity of gray cotton yarn, so we are not very much worried about that and that has also in fancy with other quality, but the gray cotton yarn there is supply pressure, supply pressure at the moment because the exports to China is our major export and that has fallen significantly in the last six months and still, but those have started a little bit rebounding, which is I feel the cost of cotton has gone soft and we are at parity with the international cotton rates at this point of time rather little cheaper than the international cotton so the exports will take place and the thing should be better focused for cotton yarn also this is what my feeling.

Awanish Chandra: It was a very helpful and detailed answer. One last question on home textile side our capacity has grown five times from FY2007, what is the current capacity utilization currently this year?

Bipeen Valame: Current utilization is almost the same, which was there earlier. There has not been any quantity expansion, so it will be around 77% for first half in this capacity utilization and it is 80% now, we are not more worried about the capacity utilization, we are more worried about our product portfolio driven, so capacity suppose we intentionally we have kept little higher capacity so once we are in the market and there are seasonal demands, once that comes we should be able to cater to those demand. We are focusing our exports also very aggressively, in fact you said that whatever capacity we have created we have created it keeping in mind, but we should be ready for the future so at present capacity utilization is not very great, but we are not worried about that, we are focusing our more attention on the value added and positioning ourselves in the upper level and in that respect I also said that we are looking for the branding our home textile product also.

Awanish Chandra: Thank you very much.

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

Prerna Jhunjunwala: Thank you for the opportunity. You have explained the cotton yarn scenario very well, kindly put some light on the blended yarn scenario as well, how are the raw material prices moving and yarn prices moving there and what is the demand scenario in that segment?

Bipeen Valame: The demand, as you see the overall demand in the overall system, as I said the consumer demand is subdued. The demand is not very great. It is not even at the level, which used to be there, but whenever the raw material prices comes down, raw material prices have been very soft in the last six months because of the US China trade war I feel that there has been pressure on international prices of all manmade fibers, so those have been coming down, so because of those coming down the raw material prices have softened, now since they have already come down to a level from where I do not find that there will be much scope in fall of the manmade fiber prices, so these both are likely to be stable normally in my opinion, but you see anything which happens any point of time the effect of raw material prices. China is a biggest player in the raw material supply of manmade fiber so anything depends on the China, but what happens there, but I am of the opinion that the raw material prices are likely to remain range bound because they have already fallen, so as far as blended yarn demand is concerned, I have already said that the demand is not that great at this point of time, but so far Sutlej is concerned we are able to fully market our products, we are mainly in each products even in synthetic blended yarn and we do not manufacture any gray yarn we are only in dyed yarns and there are many farms and brands and many applications and products, so for us there is no challenge of any demand.

Prerna Jhunjunwala: So, the Tirupur knit market, which is your one of the major market also has done well is what we can assume from this?

- Bipeen Valame:** Tirupur market is mainly concentrating on the cotton melange and cotton blended yarns, but we have consciously reduced Tirupur market because some of the local mills have also come up and we had a logistic challenge, therefore we have increased our export in melange and mileage blended yarn so we have consciously reduced the Tirupur market because you have seen that the garment exports are increased by only 2% in the last six months, August was negative, September was negative, so since garments is not doing well and if you are aware that our garment exports are less than that of Bangladesh and Vietnam, we used to be on the second position, now we are on the first position, so our garments are not doing well, but those are at the same level, which where we were 5 years back, so in Tirupur is not doing well that way, but that is okay, but we have diversified our market so we have no challenge on this account.
- Prerna Jhunjunwala:** Sir, could you put some light on the home textile brand story that you are trying to build in?
- Bipeen Valame:** That will unveil in due course of time, we have decided to go for the brand and we hope that we launch sometime in Q3, and when it is there, we will share further details..
- Prerna Jhunjunwala:** I will come back for further questions. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Sagar Shah from Alpha Line Wealth. Please go ahead.
- Sagar Shah:** Good afternoon. My first question is regarding basically your synthetic blended yarn business actually, you have just mentioned we had registered a drop of 40% in exports, am I right to that the sudden drop in exports was in that segment or other segment?
- Bipeen Valame:** No, major export drop is in our trading segment. We have won some awards also in the trading activity also if you see the first half the drop is above 25% in trading segment and I think that is the overall growth in our exports, so in synthetic there is minor change that keeps on changing and another thing, overall for the year I think our level of export for the synthetic and blended yarn likely to be the same.
- Sagar Shah:** And in the analyst meet, which you had conducted maybe I think last year, you had said actually that you will be diversifying the product portfolio of American Silk Mills and also from your Daman Ganga plant actually for the home textiles you will be diversifying your product segment so that the products that are in actual demand you will be producing from the Daman Ganga plant, so what is the status regarding the same?
- Bipeen Valame:** I have already explained just now in some of the early queries that there has been lot of progress in that account for selling surplus products in USA under ASM brand and we have launched the brand that is called ASM blocks that products have been manufactured in India and then

marketed in Sutlej the sampling is over, now the order should be started coming as I mentioned that the cycle is very lengthy, so there are two four seasons there, so in the first season first of all you have to decide the samples **and show the samples** and the furniture and other residential contracts, collect the samples then there is a show for them, then they show to their customers and then they take some little longer length then that is supplied to them then it takes about 8 to 9 months to start getting little over and it is a very lengthy cycle, but we are already on that track things are started moving and we are showing positive results in that direction.

Sagar Shah: And have we altered our home textile product portfolio also for the domestic operations?

Bipeen Valame: Yes, earlier it was mainly 100% polyester filament plus product portfolio and you can say the lower range of the quality because it was 100% polyester filament yarn, now we are using all types of raw materials including many of the types of yarn, which are being imported, which are not being affected even in India then cotton yarn and so many things blended there in and we have strengthened our design team very strongly and we have appointed many designing and marketing people in last one year, so you will not be able to see the benefit of that in overnight, but we have introduced many new designs, which have been liked by our customers and we are definitely seeing positive result, but the actual result when it comes to the balance sheet it will take a year or so still.

Sagar Shah: But, the main problem is the lack of demand in the domestic operations?

Bipeen Valame: If you see the niche product of course the overall effect will always be there in everything, if you see anybody was tracking earlier say home textile activity is now down, real estate sector is down, we are in home textile segment for curtains and upholstery, anybody buying curtains and upholstery are majorly for new houses, otherwise there is only replacement demand so that is also one challenge, but that is not a big issue, so we think that of course the demand going forward will definitely improve and that should also help us.

Sagar Shah: In H2 and even in FY20201, are we looking to reduce debt or the debt would increase based on the project cost for the PSF project that we have taken?

Bipeen Valame: No, the Green fibre project is basically for our internal use, for improvement of our quality, for supply of the sustainable materials, sustainable materials in the sense that there is inhouse demand so once we have our own plant out there and it is world class plant so from there we can supply the fiber also, export the fiber also sustainable fiber you can use it for our own product, so because of that I do not think already we are using it the products, so when we have our own it will definitely add to our margins.

Sagar Shah: But still the 119 Crores is yet to be spent on the project?

Bipeen Valame: See, the major amount is spent when you start getting the materials, materials have started coming now, we are on track, we are on the schedule, the initial expenses are only in the buildings, the building construction takes time so it is less now in the next three to six months that will be very heavy and that expenses will be spent within March itself. The machines are started arriving, so already in October, November there have been a little higher expenses and every month the expenses will keep on increasing on the project.

Sagar Shah: So, our debt levels would also increase right, the long-term debt, which we have raised?

Bipeen Valame: Yes, let me just chip in so your question is on the delta increase in the long-term debt right, so there will be a small delta increase, since we already have the repayment of almost 110 Crores to 120 Crores, which is as per the schedule, so the delta improvement what we are seeing is that our delta increase in the debt will be very small, it is not significantly changing the structure.

Sagar Shah: But do we have the free cash flow?

Bipeen Valame: Let me intervene, we have taken only 130 Crores of loan we are only taking and every year we are repaying and we are repaying total 115 Crores for next year and we are taking a total loan of 130 Crores, so there will not be major change in that, of course for the time being there will be some increase, but that is not very significant.

Sagar Shah: All the best Sir. Thank you.

Moderator: Our next question is from the line of Zakir Nassar, an individual investor. Please go ahead.

Zakir Nassar: Congrats for the healthy set of numbers considering the economic environment Sir. Sir would you get that second quarter would be better for the textile industry as a whole considering all the external constraints the industry faces that is my question and number two your new project up for recycling of the bottles into green fibers would that in anyway be impacted by the single use plastic policy of the government because your input would be a single use plastic so these are the two questions and right now your home textiles is about 7% of your entire turnover, so in the next three years what percentage of the turnover do you expect that to be?

Bipeen Valame: Third and fourth quarter we have already said that challenges will continue in the short term, which is what we feel at this point of time things keep on changing, but according to us the challenges will continue in second half also and thereafter how the things come out is very difficult because visibility is not so great, uncertainty continues, but I think ultimately the things are bound to improve on the base of our 130 Crores population, increasing purchasing power and other things, those positive things are bound to play in due course of time and the things looks challenging. Regarding your second question about the use of single use plastics let me clarify

that the pet bottle, which will be used for this are not single use plastics, which can be recycled and which can be easily used for that and it has been recycled so that will not come under the category of single use plastic. Normally what happens plastic films of below 50 microns are normally this is the problem, which now the value which we get and the amount which he spends is very higher than the amount, which we collect, so this is the problem not the pet bottle so that will continue. I do not see any challenge on that ground and the Ministry had already satisfied this.

Zakir Nassar: About your percentage of home textiles also?

Bipeen Valame: About the increase in turnover percentage of the home textiles definitely there is likely to be some increase in the revenue percentage, but in the next two, three years we have not still worked out because until and then the visibility is very clear, but definitely one thing I can say that in three years definitely revenue percentage of the home textiles business in overall revenue is bound to increase.

Zakir Nassar: Let me congratulate that Sutlej Home Textiles I think they are one of the best, friends and your quality finishes are really, really good Sir.

Bipeen Valame: Quality issues are not there because we have invested a lot of money we have mentioned in our presentation also, for us the ratio of quality and making it worldwide.

Zakir Nassar: Design also phenomenal Sir.

Bipeen Valame: Are you a buyer?

Zakir Nassar: Being a shareholder I have used your product Sir.

Bipeen Valame: Thank you very much. Most welcome.

Zakir Nassar: Thank you Sir.

Moderator: As there are no further questions from the participants, I would now like to hand the conference to Mr. S. K. Khandelia for closing comments. Over to you Sir!

S.K. Khandelia: Thank you very much for all of you who have raised their questions and many must have heard, so many things must have been clarified to others also who wanted to ask questions perhaps because other questions did not come. To summarize I would only say to conclude we at Sutlej believe that our strong routes will always help us to withstand during challenges and cherish the

opportunities. Whenever the outturns happen when the things get normal we are bound to keep better performance. Thank you very much for joining.

Moderator:

Thank you members of the management. Ladies & gentlemen, on behalf of Sutlej Textiles and Industries Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.