

14th November, 2022

BSE Ltd. 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
--	---

Dear Sirs / Madam,

Subject: Transcript of Q2 & H1 FY23 Earnings Conference Call

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, 2022 which was held on Wednesday, 09th November, 2022. The same will also be available on the website of the Company i.e. www.sutlejtextiles.com.

The conference call held on 09th November, 2022, as per the Transcript enclosed incorporates mainly the highlights of financial results upto 30th September, 2022, 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.

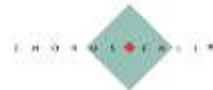
Yours faithfully
For **Sutlej Textiles and Industries Limited**

Manoj Contractor
Company Secretary and Compliance Officer



“Sutlej Textiles and Industries Limited
Q2 & H1 FY2023 Earnings Conference Call”

November 09, 2022



MANAGEMENT:

**MR. UPDEEP SINGH - PRESIDENT & CHIEF
EXECUTIVE OFFICER AND
MR. RAJIB MUKHOPADHYAY - WHOLE-TIME
DIRECTOR & CHIEF FINANCIAL OFFICER**

Moderator: Ladies and gentlemen, good day and welcome to Sutlej Textiles and Industries Limited's Q2 & H1 FY2023 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 "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rajib Mukhopadhyay, CFO and Whole-Time Director. Thank you, and over to you Sir!

Rajib Mukhopadhyay: Thank you very much. Good afternoon, everyone and welcome to the Earnings Conference call for Sutlej Textiles and Industries for the second quarter and half year ended September 30, 2022. I hope all of you and your families are in good health. Joining me on the call today, Mr. Updeep Singh, President and CEO of Sutlej Textiles and Industries Limited and Stellar IR Advisors, our Investor Relations team. We have already uploaded the investor presentation and I hope everyone has had an opportunity to go through the same. I will take you through the financial highlights, after which I will request Updeep Ji to run you through the industry and business highlights for the quarter ended September 30, 2022.

As we all know that the Indian economy like most countries in the world was impacted by the geopolitical tensions, high inflationary environment, key commodity prices which had peaked up has started declining very recently, as the industry witnessed subdued demand. During the quarter despite all challenges our performance has remained resilient due to our diversified portfolio, multimarket operations, and strong relationships with our customers.

Coming to the Income statement, our consolidated total income for the quarter was at Rs 826 Crores, which is a jump of 4% as against Rs 798 Crores for the corresponding quarter last year that is Q2 FY2022. The increase in total income was on account of realization growth mainly. Our consolidated EBITDA stood at Rs 94 Crores which was lower by 12% compared to the corresponding previous quarter. EBITDA margins were at 11.39% which is 199 basis points lower than Q2 FY2022 where it was 13.38% or Rs 107 Crores. The margins were impacted due to increase in raw material prices during the quarter. On the profitability side our consolidated PAT is Rs 31 Crores as against Rs 42 Crores in Q2 FY2022, which is lower by 25% year-on-year basis. I would like to highlight that despite being a challenging quarter our capacity utilization especially for the yarn business which forms majority of our sales has been at optimum levels at around 95% during Q2 as against 94% in the corresponding previous quarter. On the balance sheet side, the total debt actually reduced by Rs 143 Crores to Rs 799 Crores as on September 2022 as compared to March 2022. Also, as you are aware we have been consistently reducing our debt-to-equity ratio and currently it is at 0.7 times as on September 2022 compared to 0.86 times in March

2022. That is all from my side. I would now request Shri. UpdeepJi to share the business outlook and industry scenario and then we can open the floor for the question and answer session. Thank you.

Updeep Singh:

Thank you, RajibJi and very good afternoon ladies and gentlemen and thank you all for joining this call. At the outset if I have to give you the industry scenario, the scenario seems to me a little brittle in nature of the operating environment as it is reflected in the vulnerability of external shocks and unforeseen developments. As RajibJi mentioned that there is a declining trend on the raw material prices and the commodities and as a result there is a volatility in those. This leads to little bit of headwinds in the textile sector when at the consumer level there is anxiety and the demand is less, which is impacting us as a manufacturing sector as well, and there is general perception that in Q2 FY2023 the sales has been less and the Indian textile companies as the raw cotton and yarn prices remained higher and global retailers face inventory constraints compelling them to cut orders thereby putting pressure on the volume growth. Now at this stage Indian cotton prices remaining still more expensive than its global peers, high price inventories of cotton fiber with the mills, inability of textile players to pass on the higher cost to the customers across the value chain and above all a muted export demand and the current global economic challenges have further compounded the situation. There has been impact on the utilization in the textile sector which is putting pressure on the yarn fabric garment and home textile segments. However, going forward as the cotton prices ease with increased new season arrival of cotton in the market, yards, cost starting a downhill journey to appropriate levels making Indian textile companies competitive in the world markets, significant reduction in inventories of big retailers during the festive seasons or through various discounts thereby boosting Indian demand and weathering of currency headwinds the second half of financial year 2023 maybe a period of recovery. The government is also making a lot of efforts to strengthen the textile sector, engage with the stakeholders in a holistic manner to achieve the textile export's target of \$100 billion in the next five to six years and scale up the total value of domestic and international trade to almost \$250 to \$300 billion.

At Sutlej, our performance of the quarter has been quite resilient as Rajib informed and this is due to the agility in our business model and our flexibility to use various fibers that is the cotton and interchangeability to cotton to manmade fiber. Our production capacity as a result of flexibility to cater to various products and markets as per demand more over as you would be aware that we have a very diversified raw material base as I said polyester, viscose, cotton acrylic and our reliance on particular raw material is less. This helps us to be better equipped to handle volatility in the prices of any particular raw material. I think any more comments on the industry development and raw material and demand scenario I can

give you in the question and answer session and I now leave the house open for question and answer session.

Moderator: Thank you very much. We will now begin the question and answer session. We have our first question from the line of Riddhesh Gandhi from Discovery Capital. Please go ahead.

Riddhesh Gandhi: Sir I just wanted to understand has the Indian cotton now has it adjusted to the same level as international prices or it is going to still take a few weeks for the crop to come through?

Updeep Singh: Thank you for asking this good question. At the moment, if I look at with the arrivals coming in and the new crop estimate ranging anywhere between 351 to 360, 365 depending on the agencies who is giving these estimates, I think the real adjustment of prices at the base level is yet to come. As the seasons picks up and more arrivals are there, I think this will come little down and it will be adjusted from the present level.

Riddhesh Gandhi: Right now, if I look at it my understanding is the price is about 65000?

Updeep Singh: At the moment the prices are ranging in between 65000- 66000 yes.

Riddhesh Gandhi: How much would be the equivalent international prices?

Updeep Singh: International prices if we convert to on today's New York I think it is about 84 cents and if you convert this it comes to almost about 56000, 57000, so Indian prices still remain at about 17% high.

Riddhesh Gandhi: Just to understand what is the reason for the premium, is it because the freight costs are high so therefore import is harder or is it restriction on import why has the prices have been equivalent and not matching?

Riddhesh Gandhi: Why the prices are not matching with the international?

Riddhesh Gandhi: Yes, is there any restrictions which are there, is there some duty which is there and like that.

Updeep Singh: Yes, there is 11% duty as of now if anything which is shipped today would attract 10% to 11% duty so that is one of the reasons, that Indian prices still are little higher and if you look at the crop last year in the last season the crop was much less, so today what we are getting are the estimates.

Riddhesh Gandhi: So right now the alternative is people are importing the yarn is it or the fabric ?because it is cheaper is it?

- Updeep Singh:** I think so that fabric has been imported but not too much on the cotton side.
- Riddhesh Gandhi:** So we need to hold on for this sort of normalization, historically the prices of international and India are usually the parity is it?
- Updeep Singh:** Yes, but I am talking what happens is either it happens in India normally it should be a parity but keeping in view various conditions internationally as well if you look at last year because of the drought situation in US the international prices did touch about 115 plus which today are in the range of 83 cents, 84 cents per pound so I think something or the other because of the weather conditions or environmental condition or the nature, there is something which is happening and so there is a disparity between the prices either sometime Indian is higher and mostly now we have seen for the two years Indian prices have been higher.
- Riddhesh Gandhi:** On the MMF side of the thing how are you looking there given what we are hearing is that there is certain amount of imports happening from China because of the slowdown there how should we look at the MMF side?
- Updeep Singh:** See on MMF the total outlook is that it is stable to bearish and it all would depend on the movement of crude. Crude being volatile and we feel that the prices of polyester would remain mostly stable and stable to soft, we do not foresee anything today, of course nobody can predict nowadays, that these prices are going to rise from here.
- Riddhesh Gandhi:** No, but the prices obviously depend on crude but how our spreads looking right now?
- Updeep Singh:** Right now, if I have to summarize this on polyester side and MMF side it is stable to soft.
- Riddhesh Gandhi:** We expect that to continue or we expect that to reverse also how should we look at the MMF side of it?
- Updeep Singh:** See I personally feel that this situation may continue for some time but how long even I do not know.
- Riddhesh Gandhi:** But is there excess capacity, is that the problem or it is just there a demand slowdown?
- Updeep Singh:** This is coupled with both the things, one subject to the crude and the melt cost and the other side is the demand. Now if you look on the demand side it is a very subdued demand today because of lesser footfall, inventories, the retailers are also renegotiating the contracts because of the dollar movement, there are so many factors which are all combining together and this leads to the impression that it is going to be little softer.

- Riddhesh Gandhi:** If we were to look at your outlook for the next year per se, is it too hard to talk about it now given all the moving parts or do you guys have an internal view that you all can share on that?
- Updeep Singh:** See I do not see next year too bad because of the cotton outlook because of the estimates what we are getting today and unless some unprecedented weather conditions happen the cotton crop at the present level of estimate seems to be good and if that happens I think next year should be better than this year.
- Riddhesh Gandhi:** Alright Sir thank you I will rejoin the queue if any.
- Moderator:** Thank you. We have our next question from the line of Prerna Jhunjunwala from Elara Capital. Please go ahead.
- Prerna Jhunjunwala:** Thank you Sir. My first question is on capacity utilization and outlook for near-term, do we still see pressure in the yarn sales given the weak demand in the international market or yarn demand has started picking up?
- Updeep Singh:** Hi Prerna, thanks for your question, I would say on the capacity utilization as Rajib Ji said that in the last quarter which we are talking about we have a capacity utilization of almost 95% and we are in dyed yarns so there is a pressure on the demand as well especially on the PV yarn and more so on the cotton mélange yarn. So there was a pressure and the pressure on cotton mélange yarn still remains because retailers are still waiting for cotton to settle down at the fibre stage, also they are to replenish their inventories once things are finished and with the less footfall at the stores and the anxiety amongst the consumers there is a pressure on the demand side as well and we do expect that the going quarter would also see a pressure.
- Prerna Jhunjunwala:** What about domestic market have we started seeing improvement in the domestic market?
- Updeep Singh:** See domestic market has been under pressure as well because of exports because whatever was exported earlier that export was under pressure and this capacity came to domestic market. So I think domestic market is doing better in the sense that it is also able to absorb some of the capacities of exports. So, if that goes on for long the domestic market is also going to come under pressure in the near-term.
- Prerna Jhunjunwala:** If you could give some color on the green fiber plant at what utilization it is operating and how is it helping in managing our cost today?

Updeep Singh: On green fiber I must say that green fiber has done well in the quarter, we have achieved good utilization ,in fact October month the last month we were in, we could do almost highest production on per day basis consistently for average on the monthly average and our profitability also on the green fiber project has been very good. So green fiber has done good both in terms of profitability as well as helping us in the yarn division, because most of the fiber goes to our own yarn and we could improve a little bit on the efficiency at the spinning stage as well and have better control over the raw material. So green fiber I would say last quarter fared fairly well.

Prerna Jhunjhunwala: What is the utilization level today of green fiber and how much is consumed internally?

Updeep Singh: We are making almost 3700 tons per month against the capacity of 3600 plus and almost 95% of this is consumed internally even little more as well.

Prerna Jhunjhunwala: That is perfectly great and just trying to understand how much ROE, ROCE this plant is adding to your numbers if you were using virgin fiber against the recycled fiber what is the delta that you are receiving in the margins this is something that I want to get your understanding?

Updeep Singh: If you look at this, the difference between virgin and green fiber today is a range of Rs.12 to Rs.15 or in certain cases yes 15 plus, so the delta and margin addition is one part, second is the shades so if we convert off and on, it becomes difficult to get the same shades out of virgin as well as recycled. Our dyed uptake of recycled is much more than the virgin fiber so to match the shade it is not so easy so we have a threshold which keeps on changing as to where we would like to switch from recycle to virgin. Of course with the virgin fiber we might be able to improve on the working of the spinning to some extent; however, this adds to certain other issues on the shade matching. So if you compare on today's prices I think in the PV yarn this would be to the extent of almost Rs.7 to Rs.8 per kg which is giving us advantage because of green fiber or recycled fiber.

Prerna Jhunjhunwala: This is actually very good because Rs.7 to Rs.8 is a very good number to add to profits.

Updeep Singh: Plus this is the sustainability factor as well. So we as a company would like to stick to sustainability factor.

Prerna Jhunjhunwala: Just wanted some clarity on home textiles business also so you are at capacity of 8.4 million meters and wanted to get some color on what utilizations they are at and where do you see this business over the next three to five years?

Updeep Singh: Home textile business as far as loom capacity is concerned that is what sometimes I say there is a difference in this home textile in the living room as compared to bed and bath. Today we are running at about 80% in terms of the loom capacity, so I would say that home textile business with the traction we are getting on cut service -Nesteraa, I do see that this business is going to grow in the next three to five years to a larger extent I cannot give you any fixed numbers or percentages, but I think this is a business which we can grow profitably in the next three to five years.

Prerna Jhunjhunwala: Understood Sir thank you I will come back to the question queue.

Moderator: Thank you. We have our next question from the line of Vikram Vilas Suryavanshi from Phillip Capital India Private Limited. Please go ahead.

Vikram V Suryavanshi: Good afternoon Sir and congratulations for good performance in a challenging times while most of the players are really struggling to maintain profitability. I think some of the questions already answered, but just to take it forward on home textile we have seen the recovery in our sales but still I think profitability is not that much improved so what will be the road to profitability improvement in home textile?

Updeep Singh: First of all thank you very much Vikramji for your kind words. Yes, the team has done well under the circumstances I would say and regarding this home textile question I would say that you are absolutely right that the profitability has improved but still it is in red. So what we see coming forward of growing the profitability is our thrust on exports especially in US and UK market and Middle East, because US and UK market are the markets which are really good on this and also on the cut service and the good thing is that over the last one quarter where we had launched more goods on the cut service as well we have seen a very good traction coming in, in cut service business which is of course business with more margin of course it takes time to grow that business but I feel that we will be able to take this positive in the next quarters a few quarters more we should be able to make it positive.

Vikram V Suryavanshi: What would be the share of export in home textile for us and if you can give even share of our Nesterra brand in overall sales broadly?

Updeep Singh: I would say the overall Nesterra today is little less than 10% and export is to the extent of almost 25% which we intent to grow so that is why it is little less.

Vikram V Suryavanshi: So export can we reach to the similar number what we have in yarn like around 40%, 45% almost half of the sales?

Updeep Singh: Definitely yes that is the target.

Vikram V Suryavanshi: Just to get more sense on this yarn side typically we have around 35% like mélange production earlier but in the view that more demand is shifting to the polyester, viscose and with the volatility in cotton prices what was the share for us in mélange in Q2 or is there any material shift in this mélange yarn production?

Updeep Singh: See Q2 our production, mélange yarn was hovering to the extent of almost because one thing I would like to clarify before I say the share mélange when you say mélange either you are referring to only cotton mélange that share was much less whereas now we have developed from mélanges in polyester and polyester cotton mélange as well. So if I combine all the mélanges together we still are at the range of say about 40%, 45% and cotton mélange was less.

Vikram V Suryavanshi: What would be broadly cotton mélange approximately?

Updeep Singh: Cotton mélange I would say 100% cotton mélange was to the extent of almost 26%, 27%.

Vikram V Suryavanshi: Okay got it. Thank you very much Sir.

Moderator: Thank you. We have our next question from the line of Aman Madrecha from Augmenta Research Private Limited. Please go ahead.

Aman Madrecha: Thanks for the opportunity. Sir can you please highlight about how has been the polyester yarn spreads and the cotton yarn spreads because what we are hearing from the industry is that at the cotton yarn spread level practically the spinners are at a breakeven so can you just highlight in our sales what are the spreads currently and how are we foreseeing that because as the new cotton arrivals are coming and the prices are softening so any color on that?

Updeep Singh: Thank you Amanji for this question, I would say that when you are referring to cotton spread and when you said that mills are at breakeven you might be referring to the cotton gray yarns, so gray yarns I would add to your statement that mills may not be at the breakeven at some point of time the spread was negative the cotton price was higher the yarn price was lower at some point of time. Today the spread is almost in cotton yarn say for in the 30s cotton the spread still remains to the extent of Rs.40, Rs.50 even less, but in our case being a mélange yarn our spreads are little different so there is a pressure on that, the spread on mélange yarn had been to the extent of almost I would say 70, 75 for quite some time that is why we had to get to some other mélanges in terms of polyester cotton so that is a spread on the cotton side.

Aman Madrecha: That is all from my side.

- Moderator:** Thank you. We have a question from the line of Vikram Vilas Suryavanshi from Phillip Capital India Private Limited. Please go ahead.
- Vikram Suryavanshi:** Can you update us on this expansion plan which is in J&K how the progress in terms of land acquisition and order is?
- Updeep Singh:** The plan is like this that the government of J&K has minuted the minutes of the assets committee meeting in which they have allotted the land parcel, we are yet to receive the letter of allotment from them, the minutes of the meeting have been uploaded and I think they have asked for any objections if any from the applicants who had made the DPR. So I think we should be able to close it by end of this month later and the land parcel would be allotted by that time by end of the month this is the expectation.
- Vikram Suryavanshi:** Got it Sir thank you.
- Moderator:** Thank you. We have our next question from the line of Vivek Mehta an individual investor. Please go ahead.
- Vivek Mehta:** Thank you for giving me the opportunity. I have one question and can you give the outlook on demand in USA and Europe and do things get to improve in H2?
- Updeep Singh:** I feel personally that in H2 see the part of H2 has already gone so we are in third quarter so I feel if at all the demand comes in, in a good way within this year it would be only the latter half of the last quarter this is what my personal opinion is because of less footfall today and also retailers sort of renegotiating the contracts and also replenishing their inventories later on and the cotton prices yet to stabilize I think we will have to wait for a few months before they get there so H2 may not be very, very good but I think there would be recovery in the last quarter this is my personal opinion.
- Vivek Mehta:** Thank you Sir.
- Moderator:** Thank you. As there are no further questions I would now like to hand the conference over to Mr. Updeep Singh – President & CEO for closing comments. Over to you Sir!
- Updeep Singh:** Ladies and gentlemen thank you very much for attending this call and we really feel encouraged while good questions being asked and the situation being explained. We as a team are very resilient and we do feel that we will be able to tide over the situation what the textile industry is facing world over under the uncertain circumstances but it is something which is really doable and we are quite confident that we will be able to tide over and do well in the coming days and with all this I would like to once again thank you all and thank

my team across the units and the offices and our customers and all stakeholders for supporting us in doing whatever best we could do and whatever best we will be able to do in the coming quarters. Thank you very much.

Moderator:

Thank you. On behalf of Sutlej Textiles and Industries Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.