

18th August, 2023

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
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Dear Sirs / Madam,

Subject: Transcript of Q1 & FY24 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 ended 30th June, 2023 which was held on Friday, 11th August, 2023. The same is also available on the website of the Company i.e. www.sutlejtextiles.com.

The conference call held on 11th August, 2023, as per the Transcript enclosed incorporates mainly the highlights of financial results upto 30th June, 2023, 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

Spinning excellence since 1934

“Sutlej Textiles and Industries Limited
Q1 FY ‘24 Earnings Conference Call”

August 11, 2023

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Spinning excellence since 1934



**MANAGEMENT: MR. S. K. KHANDELIA – ADVISOR – SUTLEJ TEXTILES
AND INDUSTRIES LIMITED
MR. RAJIB MUKHOPADHYAY – WHOLE-TIME
DIRECTOR AND CHIEF FINANCIAL OFFICER – SUTLEJ
TEXTILES AND INDUSTRIES LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to Sutlej Textiles and Industries Limited Q1 FY '24 Earnings Conference Call. From the management panel, we have with us today Mr. S. K. Khandelia, Advisor of Sutlej Textiles and Industries Limited and Mr. Rajib Mukhopadhyay, Whole-Time Director and CFO. 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 this conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

And now I hand the conference over to Mr. Rajib Mukhopadhyay. Thank you and over to you, sir

Rajib Mukhopadhyay: Thank you Good evening, everyone. And welcome to the earnings conference call for Sutlej Textiles & Industries for the first quarter ended 30th June 2023. I trust that you are all doing well. With me on the call today is Mr. S. K. Khandelia Advisor of Sutlej Textiles and Industries Limited and Stellar IR Advisors, our Investor Relationship team. We have already uploaded the investor presentation and hope everyone has had an opportunity to go through the same.

Let me start the call by giving you the financial highlights of the quarter gone by, after which Khandeliaji will feed you in with the business highlights as well as the industry highlights for the quarter ended 30th June 2023. We have had yet another quarter where the overall demand supply scenario has remained muted on the back of the global and domestic conditions. Most of our global markets are currently still recovering from an inflation induced economic stress.

I would also like to highlight that an year-on-year comparison is strictly not fair since the textile sector and in particular, spinning industry has been facing challenging times since Q2 FY '23. Prior to this period, the business environment for the sector was extremely buoyant. Now for Q1 FY '24, our consolidated total income came in at INR711 crores, which was 17% lower than Q1 FY '23, which was on account of decline in demand.

Gross profit stood at INR282 crores, which was lower by 37% on a year-on-year basis. Gross margin for the quarter stood at 39.67%, which is lower on a year-on-year basis. However, has improved by 45 basis points compared to immediate previous quarter, Q4 FY '23. EBITDA for the quarter was INR5 crores as against INR34 crores in Q4 FY '24.

As we have been updating you, our efforts at strengthening our balance sheet still continues. During the quarter, we have reduced our debt by INR7 crores from INR944 crores as against INR951 crores in FY '23. Our current debt to equity ratio continues to stay below 1 and currently stands at 0.87x.

Those were my opening remarks, I now request Khandeliaji to please take it forward with the business and industry updates.

S. K. Khandelia:

Thank you, Rajib, and thank you all for joining us today on this earnings conference call. As you may be aware, the textile sector in general and spinning industry in particular has been witnessing subdued consumer demand in domestic as well as in export markets. Since the second half of FY '23 on account of high inflation and recessionary pressures in North America and Europe, creating severe demand/supply mismatch in exports as well as domestic markets, putting pressure on realizations and margins and also leading to higher inventories with the mills as well as in pipeline up to retailers. The entire spinning industry is badly impacted, and we are no exception to it.

Another thing that added to our -- which is that we used to run about 1/3rd of our total spinning capacity or highly value-added and profitable, especially cotton and cotton blended Dyed and Mélange yarns, meant exclusively for garment exporters in the country and for overseas markets.

Besides, we used to have exports of highly value-added and profitable synthetic and blended yarns in our total portfolio of exports. However, as stated above to inflation and recessionary pressure in the U.S. and U.K., the overall exports of garments and other textile items from the country has been declining. In June quarter, it has strengthened by 11% compared to previous year. Consequently, we have been forced to run spindles on low-margin Grey and other yarns.

However, now it is heartening to note that we are seeing some trend reversal. Global retailers are continuing their efforts to reduce their inventory levels and are likely to start using orders from the beginning of second half of this fiscal for their summer/spring collections. We also expect demand to improve to some extent in ensuing months on account of festive season for the domestic demand.

I give you some of the figures that U.S. imports of apparel -- U.S. global imports of apparel is down by 24%. European imports of global apparel is 22%. U.K. is down by 24%. So you can see that in such scenario, it is definitely the market has been under pressure. When I say that the retailers are adjusting their inventory or trying to reduce their inventories. Again, a figure, the U.S. apparel store sales is up 6% in June as compared to previous year.

U.K. apparel store sales 6% up than May 2022. And as we said, our July exports of apparel is down by 20% compared to June '22 -- sorry, yes, it is of the June. I think here it is written, it is a entire textile. Apparel exports in which our lot of yarn goes, is down by 20% compared to June '22 -- in June '23. Similarly, 14% compared to same period last year, July. This Indian apparel exports in 2023 remain in USD 15.5 billion, which is much lower than earlier years. So you can understand that the pressure because of the -- in India also inflation is very high yesterday in RBI policy, they have increased the whole year inflation from 5.2% to 5.4%, if I am correct. Similarly, everywhere the inflation is still challenged. So we hope that going forward it should come down.

Second thing is that the macro indicators in India also remained resilient and economy is likely to grow 6.5% growth in GDP in FY '24. And everybody is confirming that India will continue to grow at similar growth there or even higher at least for the next couple of years and thus, India is a bright sport for -- in the entire global economy. To conclude I would like to say that

due to strong headwinds, we have been experiencing turbulence and we are recovering to come out of it. I'm confident that notwithstanding such temporary hiccups, we will, again, be on our growth journey. Thank you. And with that, we can take up your questions now.

Moderator: Thank you very much. We will begin the question-and-answer session. The first question is from the line of Hari Kumar, individual investor.

Hari Kumar: Yes. Okay. Can you please throw some light on ASM sir, American Silk Mills? And the second question, sir, regarding our first specialized yarns, like we are supposed to be less affected and compared to the commodity yarn players. But still we are affected, what is the reason, sir?

S. K. Khandelia: Yes. Can you please repeat your first question?

Hari Kumar: Throw some light on American Silk Mills, like our U.S. subsidiary.

S. K. Khandelia: American Silk Mills. Oh, I see. You see -- first, I take up your second question first, which is of the larger volume and other things, and which as you said that the niche products should be impacted less. So there, I would like to say that our -- as I mentioned, that our speciality products, which is the speciality Mélange and Dyed cotton and cotton blended yarns goes to the garmentors in India, who manufactures the garments and they export it.

And majority of the export is to European Union and U.S. Since the demand there has -- given the figures that the demand there is so subdued that the overall export sales shrunk like anything. And whenever there is such type of change, they don't want specialty, they want only commodity. And that is where that in such type of unusual situations, the specialty yarn was impacted more.

Similarly, in our export of such yarns, the same situation comes there when the retailers are full of the inventories. And naturally from wherever they want the garments ultimately our yarn is going to different countries, they are not buying the garments, and that is the reason that this particular type -- this cannot go into commodity, this has to go on the value-added products. So because of such high inflation, people don't have money to buy high-end products.

And that is why this has impacted much to us as compared to the commodity players because our margins were high. So the margin is not their -- in commodity were still making so we are like other herd. Everybody in commodity and we have also come to the commodity. Otherwise, you always used to set yourself apart from that. We were different.

We have always been telling we are different. We are not like the normal spinner. So this is how this was impacted much. So far, American Silk Mills is concerned. And this is continuously, we are doing whatever we can do. And we hope that going forward, it should deliver some better results. This is what we can see right now.

Moderator: The next question is from the line of Viraj, an individual Investor.

Viraj:

I just have one question on the industry per se. I think most players within your industry are kind of facing similar headwinds. When do you see this turnaround? And do you think there is any larger systemic problem with the industry as we stand today? Because the government seems to be doing a lot at their end from policy perspective. But from ground reality, if you could throw some light on when you think this industry will kind of take a turn for the better?

And second is, I think in your last call also, you had spoken about the free trade agreements. Is there any progress on that, that you are aware of? And is that going to help us in any way?

S. K. Khandelia:

And your first question is the overall industry perspective and what do we think and what you see textile industry has always been a cyclical industry. In recent years, when -- earlier it was the demonetization, the unorganized sector was there, then the GST, then U.S.-China trade dispute, then the pandemic and so on. So you see every now and then the Ukraine war, all commodity prices has gone haywire.

So because there are certain things which have been happening here. Second thing, because of government initiatives and many state governments giving lot of incentives, lot of capacities just come up without taking into account demand and supply. So that is how all the time, there is always supply pressure. This is the one part because the demand is not increasing with the rate with which the spindlage has increased. Second thing is that since the pandemic, everything has -- inflation rate has been so high.

As you see, the RBI interest rate has gone up so high, which is not used to be like that. So since everything has gone high, people don't have so much money to buy, and it is a discretionary product. Because if one has to buy something necessarily for day to day things, he will buy first it. Cloth is not such a priority item.

But of course, whatever is required, and these days synthetic and other cloths have a longer life. So because of that, and secondly, there is too much volatility in raw material prices. So whenever say there is too much volatility in anything, people just keep wait and watching.

Suppose if I buy something today, whether tomorrow the prices are not going to go down so until unless there is stability in any business, the things do not move at the normal pace. And this is what we have been seeing that the cotton prices, which were at 110,000 per candy is now about 60,000. Earlier it went like anything then it come down like anything. In such situation, every time pipeline has the stocks and other things, they suffer losses. So now the raw material prices and other things are getting stabilized.

And earlier, we were talking that there is bound to be recession in the U.S. Then they said there are major possibilities and now they are saying recessionary trends. So you see how the things keep on changing because the times has been unusual. So ultimately, I feel that the most of the things are behind us. And now going forward, I think gradually, it will stabilize. And once the price stability is there and the inflation comes down a little bit more I think it will continue -- the industry will continue to flourish, number one.

Second big opportunity for India is the China plus policy. You must have read the China is in deflation now and that is giving a good opportunity to India to increase its exports. Besides everybody in foreign countries, One China, One Policy, they are looking for the larger capacity here. But since they themselves were in trouble because of their energy prices, you have seen because of Ukraine how much fuel cost went -- their gas price and all that. So when they come back in normal level, they don't have any other choices, except 2, 3 countries.

So India is a bright spot because India has a stable economy, we are continuously growing. So with those type of things, I think that going forward, textile industry will have a bright future. Our GDP growth is bound to be continuously 6.5, 7.5 or something like that. Today morning, if I am aware reading somewhere that for years to come and everybody knows that India is a bright spot in for economy.

Secondly, we have such a about 1.4 billion population. Even their requirement is so high. But it is tapered down temporarily, because of inflation in other sectors. And because people lost lot of money in pandemic on treatment and all those type of things, they lost their whatever money they have saved for the rainy days. So first of all, they are again building their focus. So all these things are a little bit behind us and I'm very much hopeful for next financial year or so.

Textile industry will again be in a peak. I tell you about the FTA. Government of India is pursuing hard, U.K. FTA is likely to be concluded sooner than in any other FTA. Besides with the other countries also, because government of India wants that India's exports should grow. This is a labor-oriented industry, provides a lot of employment. They are giving specific focus and it is very clear to them until unless we increase the export.

And this is the opportunity because of China One policy and other things, PLI scheme has given a tough was there. So Indian textile industry is largely -- larger extent as compared to 5 years back. So they are also pushing all the FTAs and I'm sure that and earlier, there were very slow progress. Now they are pushing very hard and going forward, we should see the results. And that will be helpful for India.

Viraj:

So would that also help our company, the FTAs?

S. K. Khandelia:

Yes, definitely. You see there are different -- as a country, if you are talking then there are different things. . If suppose some wine manufacturer will ask me it will hurt him. But so far, textile manufacturing is concerned, definitely, we are going to be benefited. The countries with whom we are now talking about the FTA, they don't have the textile production like us. Earlier when we had the FTA with Asian countries, which they themselves are our competitors, they rather back fired. Now it is not so.

Moderator:

Next question is from the line of Niraj from White Pine.

Niraj:

My question is that one on the home textile business, can you tell us what was the capacity utilization for the quarter?

S. K. Khandelia:

Around 50%. As of now, it is around 50%, and we are trying to improve upon it.

Niraj: So if you see in the last quarter, it was around similar numbers, but your EBITDA improved in this quarter. So what led to the improvement in this home textile margins?

S. K. Khandelia: We have one Nesterra brand, as you know. And then we have focused on the more value business. You see that the 50% is the same, we have improved the product mix. We are focusing more on the Nesterra. We are focusing more on exports. So that is how our performance has improved with the same capacity utilization.

Niraj: Sir, how much would be the Nesterra sales of the total sales that you have done as a percentage?

S. K. Khandelia: Because it is still -- you see it is in the -- it is a specialty products in a different segment -- retail segment, it goes to the retailers. So it is still picking up about establishing such type of the business model and all that. So initially, one has to struggle. I think about it is INR1.2 crores -- it is INR4 crores for this quarter for the Nesterra. So that means that you can say it is INR16 crores for the whole year, it is the proportionate. But you see that this type of business once it grows up because it's a consumer driven business. It is to go to retailers and the cut segment and all that. Initially, it has to grow very slowly. But the number of partners of the retailers which has increased, is increasing and that is very satisfactory. And we hope that going forward, this will have a good business.

Niraj: But sir, INR4 crores revenue on home textile revenue of INR45 crores or so, it is just 10%. Should it have a meaningful impact on having the EBIT margins impacted?

S. K. Khandelia: We are basically always been -- our major focus has always been spinning. Revenue from home textile is definitely always less than the overall revenue...

Niraj: I'm talking from the EBIT margin of 10%.

S. K. Khandelia: Home textile is a big segment. We are in curtains and upholstery and not like the other volume business like sheeting and other things. And it is a niche business, design and all those type of things play a lot of part in it. And since it was struggling since years, we have taken a new formats. We have developed a little bit more exports. So there, we have changed a little bit. We have made little changes and that will hopefully show the results going forward.

Niraj: And how is your growth looking in Nesterra going forward?

S. K. Khandelia: Growth in, Nesterra. Yes, it is -- we hope that -- that's why we have started this and we hope that it is bound to grow. But you see initially, the growth will be slow, initially the growth in such type of business is slow and one has to cater to that initially. And once everybody comes to know as the people come aware about it, gradually, such type of business grows. So growth may be say initially, it may be 20% growth from where we are here, then it may pick up from that, 20% will be much more. So exactly speculating on the growth figures at this point of time, first of all, we have been able to establish our quality. We have been able to create a wider network of retailers. Our books on design books has gone to them. They have started sending orders to them. And that is a satisfactory thing for us that ultimately these things are bound to result into profitable and other growth.

Niraj: Okay. Sir, the last question is on you said there are some green shoots of the demand emerging in the U.S. So can you elaborate that one?

Management: Green shoots in demand in the U.S.

S. K. Khandelia: Yes, demand in the U.S. as I have already mentioned that the retailers have started exhausting their inventory-- and we hope that for spring and summer. Normally, they place the order sometime in October or something. So you see that once the demand starts there and once the inventories are over, naturally they will require to -- after destocking, they will require to stop the inventories. So the demand -- once the demand starts, it will continue.

You see earlier when the pandemic was there, they were having a lot of the stocks. First, I wanted to address because in uncertainty wise, there nobody know that when it will be over, then something pent-up demand came, then they further stocked, they say okay, okay everything is now okay, the demand petered out.

So now they are first exhausting and in uncertainty, nobody wants to keep stocks. Now they see that things are getting normal -- that recession, which was supposed to be certain in U.S. Not like that, the recessionary trend, pressure is there, but it is coming under control. It is coming under control, the people are hopeful now that the things will start moving now.

And that's why we hope that the U.S. demand will start coming. I don't say that it will be as usual in October itself. And it is our hope that spring and summer order will start growing from October and that should keep on increasing and say it may take another 6, 12 months when the demand may be normal.

Moderator: Next question is from the line of Hari Kumar, Individual Investor.

Hari Kumar: One more for a follow-up question. Sir, regarding this technical textile even this tough times like some of them are making decent money. Is the company planning to enter that segment, sir?

S. K. Khandelia: Technical textile, again, is a big sector. And we keep on evaluating different options as there we had evaluated exports, and we were thinking about that also but pandemic came in. So we always keep in evaluating the opportunity. But since overall, market conditions are so vague, but temporarily, there is a shut there. But we keep on evaluating. So we have -- the technical textile is one of the areas in which we are focusing.

Moderator: Next question is from the line of Viral Shah, Individual Investor.

Viral Shah: I have a few questions. Just first question is what is the cotton yarn spread for this quarter?

S. K. Khandelia: I think I will not be able to give you this figure right now, but you can send an email, we will send you the reply. Because the prices has been so fluctuating, but of course, for this quarter, we will be aware. But right now, I don't have that and we will send the email.

Viral Shah: Okay. Sir, another question is, was there any inventory hit we took in this quarter. What was the extent if you can quantify it?

S. K. Khandelia: You see so far inventory hit is concerned our stocks are always valued at cost of market hit, whichever is lower. So always, that has been on the cost basis. And the market, though, it has been coming down, but it has not come down that it has to go down below first. I don't think in normal per se, you can say that if I was selling something like INR100, and today, if I'm selling at INR80 it is a hit in profit.

But since that inventory sell was diluted at about 2%, so far if the accounts are concerned, there is no hit. Profit has already been hit because I would have been selling at INR100, which I have been selling at INR80. But my question is the stock is valued at INR70 only. because it is valued at cost only. So I think most of the qualities, the rates are still either at cost or above cost. Actually, you see the only impact which comes is there until unless you sell it, the profit in that does not transfer to the profit.

Moderator: As there are no further questions, I will now hand the conference over to Mr. S. K. Khandelia for closing comments.

S. K. Khandelia: Thank you, all. You have asked very interesting questions. And to conclude, I would like to say that we have been suffering -- industry has been suffering. But I always believe that no night can to so longer that it can stop the break out of the day. So I think we are in the latter part of the night, and we hope that we will soon see the daylight, and that is what I can hope today. Thank you very much.

Moderator: Thank you very much. On behalf of Sutlej Textiles & Industries Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you