

Management Discussion and Analysis



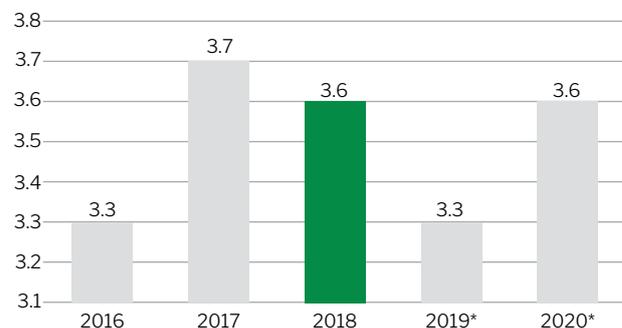
Global Economy

The global economy showed a mild GDP growth deceleration to 3.6 percent in 2018 from 3.7 percent in 2017. In 2017, economic activity was accelerating in almost all regions of the world. With the escalation of the US and China trade war, credit tightening in China, macroeconomic stress in Argentina and Turkey, disruptions to the auto sector in Germany, and financial tightening alongside the normalization of monetary policy in the larger advanced economies have all contributed to a significantly weakened global expansion, especially in the second half of 2018. The condition is expected to ease with US Federal Reserve signaled a more accommodative monetary policy stance but element of uncertainty will remain in the markets till conclusion of US-China trade deal.

These headwinds are expected to continue into first half of 2019, softening it further to 3.3 percent in 2019 before it strengthens back to 3.6 percent in 2020. The growth in GDP acceleration will be supported by significant monetary policy accommodation by major economies, due to reducing inflationary pressures despite growing at near potential.

The growth rebound will be further supported by recovery in developing economies, where growth is projected to increase from 4.4 percent in 2019 to 4.8 percent in 2020. (Source: IMF, World economic outlook April 2019)

GDP Growth Rate (in percent)



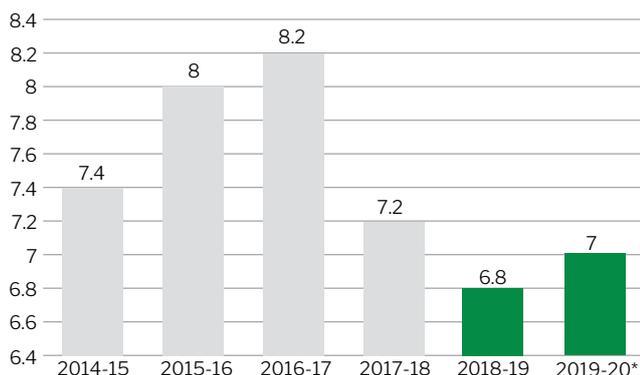
(Source: IMF)

Indian Economy

India continues its growth in FY 2019, albeit at slightly lower rate than the previous year. Growth slowed from 7.2 percent in the fiscal year 2018 to 6.8 percent in the fiscal year 2019 on account of weaker agricultural output and consumption growth curtailed by higher global oil prices and lower government expenditure. Food grain production was slightly below the harvest in the previous year, mainly due to shortfall in cereals and pulses. Growth in Industry increased to 7.7 percent, in the year under review, owing to improvement in manufacturing, construction and utilities. However, government consumption slowed due to tightening finance.

Nevertheless, growth is anticipated to be 7 percent in FY 2020 as the policy rates are cut and farmers receive income support, boosting domestic demand. The GDP rate is expected to pick-up with recovery in agriculture and better domestic demand.

Annual GDP Growth Rate (in percent)



(Source: Ministry of Statistics and Programme Implementation)

*Estimated

Global Textile Industry

The global textile market is valued at US\$ 925.3 billion in 2018 and is anticipated to grow at a CAGR of 4.24 percent between 2019-2025. The growth is achieved on the back of high demand of apparels, especially in the developing markets including India, China, Bangladesh and Mexico, owing to rise in population. Product innovation along with increase in number of retail outlets and usage of e-commerce in the developing economies has marked a positive growth trend for this industry.

Recently, there were some obstacles that the industry had to go through due to recent political occurrences like trade war between US and China.

Asia pacific, including China and India, emerged as the largest regional markets in 2018 owing to increased consumption of apparels and garments. The Middle East & Africa (MEA) region is anticipated to witness revenue growth at a CAGR of 4.19 percent from 2019 to 2025 due to continuous product innovations in apparels application segment.

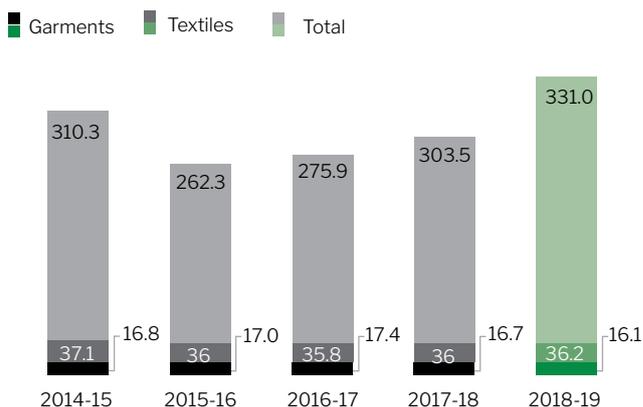
Indian Textile Industry

The Indian textile and apparel market is growing at a CAGR of 10 percent from FY 2006 to FY 2019 and is estimated to be US\$ 100 billion in 2018-19. India accounts for second largest share in the global textile export and has a huge production and manufacturing base for the raw materials required in the textile industry.

The textile industry significantly contributed towards growth of the economy in terms of its domestic share and exports. Out of the total industry output of the country, the textile industry itself claims 7 percent of contribution and has a 2 percent contribution towards the GDP of the country. Textile industry is a source of employment for about 45 million people. Globally, India holds a share of 6 percent in the textiles and apparels industry.

The domestic prices of cotton have increased substantially as compared to global prices, which is negatively affecting the competitiveness of the textile industry in export markets. This in turn put pressure on the domestic markets also.

India's Export Story (Figures in (\$ bn))



(Source: Ministry of Commerce, Compiled by BS Research Bureau)

*2018-19 is Estimated

Government Initiatives

Amended Technology Upgradation Fund Scheme (ATUFS):

Through ATUFS, the Ministry of Textiles aims to augment investment, productivity, quality, employment, exports and import substitution in the textile industry. The government also plans to provide credit linked capital investment subsidy (CIS) under the amended TUFS to promote 'Make in India' with 'Zero effect and Zero defect' in manufacturing. The total investment in the projects is around ₹ 24,338.75 crore.

Scheme for Integrated Textile Parks: The scheme has been extended from 2017 to 2020 with the objective of building 65 textile parks in India. In 2014-2018, around 20 new textile parks have been sanctioned with an investment of upto ₹ 6,834 crores generating employment for approx. 65,000 people.

Scheme for Capacity Building in Textile Sector (SCBTS):

The scheme was introduced with an objective of providing a demand driven and placement oriented skilling programme to create jobs in the organized textile sector and to promote skill upgradation in the traditional sectors. The outlay of the scheme is of ₹ 1,300 crores (US\$ 202.9 million) from 2017-18 to 2019-20.

Silk Samagra - Integrated Skill Development Scheme (ISDS):

The textile industry employs around 45 million of people. In order to enhance their skills, Union Minister of Textiles introduced Integrated Skill Development Scheme (ISDS). The objective is to transform the unskilled manpower to skilled workforce in various sectors like Garment, Knitting, Processing, Manmade & Synthetic fibres and other unorganised textile sector including traditional sectors like Jute, Silk, Handloom, Handicraft & Carpet by running the certified skill development programme in these sub-sectors

across the country. The scheme targets of training 10 lakh persons (9 lakh persons in organised & 1 lakh persons in traditional sectors) over a period of 3 years (2017-2020).

Global and Domestic Cotton Scenario

World cotton production in the cotton year 2018-19 is estimated to be lower by about 4 percent at about 25.88 million tons against 26.95 million tons in the previous cotton year 2017-18. Major Cotton producing countries like India, USA, Pakistan, Australia and Turkey are estimated to produce a lower cotton crop in the year 2018-19 as compared to the previous year with exception of China which is estimated to have more or less same size of cotton crop. The reduction in the global cotton crop is partially off-set by growth in the Brazilian cotton which is estimated to produce about 2.67 million tons which is 33 percent more as compared to the previous year.

World cotton consumption for the year 2018-19 is expected to be marginally lower at 26.63 million tons, as compared to 26.71 million tons in previous year (decrease of about 0.30 percent).

World cotton consumption was highest during the years 2006-07 & 2007-08 at about 27 million tons. Due to higher cotton prices and volatility in cotton prices in 2010-11, world cotton consumption dropped to 22.67 million tons in the year 2011-12. Since then it has been increasing because of the preference of the consumers towards cotton; on account of being a natural fiber, comfort reasons as well as consumer awareness towards sustainability and bio- degradability of the cotton. China is likely to remain the largest consumer of the cotton with consumption of about 8.74 million tons followed by India which is estimated to consume about 5.4 million tons of the cotton in the year 2018-19.



International trade of the cotton in the year 2018-19 is estimated to be about 9.02 million tons against 8.9 million tons in the 2017-18. Despite the trade war between the US and China, international trade has marginally gone up. USA remained the largest exporter of cotton in the world followed by Brazil. Record high crop in the Brazil is driving exports to higher levels. In the year 2018-19, Brazil has surpassed India as second largest cotton exporter in the world.

Import dependent countries, such as Vietnam and Bangladesh, are also set to reach their highest level of imports from international market. Despite of almost 50 percent reduction in the Australian crop, Australian cotton exports are marginally lower from the last year. Increased exports from the West African countries also increased the world exports level in the year 2018-19.

World cotton outlook 2019-20:

World cotton production is projected to increase by about 5.4 percent to 27.29 million tons in the year 2019-20 which will be second highest ever level, world highest cotton crop was produced in the year 2011-12 at 27.7 million tons. Higher

cotton production is projected in almost all leading cotton producing countries including US, China, Pakistan and Brazil.

Despite of the trade uncertainties amid the trade war between the US and China, world cotton consumption is projected to be at 27.27 Million tons for the year 2019-20 which will be record highest ever. Forecasted consumption level is slightly above the record highest cotton consumption recorded in the year 2006-07 and 2007-08 at about 27 million tons.

Cotton consumption is projected to increase in countries like China, India, Bangladesh, Vietnam etc. Chinese cotton consumption is likely to grow by almost 2.4 percent over the last year. Consumer preference towards the sustainable fiber mainly cotton is also likely to boost the demand of cotton in 2019-20.

However, presently ongoing trade war between two major economies has created an environment of uncertainty across the world textile industry. Much lower demand has been witnessed in the world textile market which is putting pressure on the prices and margins of the textile mills.

In Million Tons

Particulars	2017-18	2018-19	2019-20	Change in 2018-19 over 2017-18	Change in 2019-20 over 2018-19
Beginning Stock	17.49	17.68	16.94	1.09 percent	-4.19 percent
Production	26.95	25.88	27.29	-3.97 percent	5.45 percent
Imports	8.93	9.24	9.74	3.52 percent	5.37 percent
Total Supply	44.44	43.56	44.23	-1.98 percent	1.54 percent
Consumption	26.71	26.63	27.27	-0.30 percent	2.42 percent
Exports	8.93	9.17	9.74	2.69 percent	6.22 percent
Total Use	26.71	26.63	27.27	-0.30 percent	2.42 percent
Ending Stocks	17.68	16.94	16.88	-4.19 percent	-0.35 percent
China Stock	8.28	7.48	6.86	-9.66 percent	-8.29 percent
Stock to Consumption	66 percent	64 percent	62 percent		

(Source: USDA)

Indian Cotton Scenario 2018-19

India's textile industry is mainly cotton based, therefore, it plays a major role in the Indian Economy. Indian Govt. announced increase of about 28 percent over the last year in the 'Minimum Support Price' (MSP) for the seed cotton over for the year 2018-19. The increase in the MSP for seed cotton, higher market prices in the year 2017-18 and better profitability in the cotton crop over the competitive crops in

the country induced the farmers to sow more cotton. The area under cotton cultivation in the year 2018-19 in India was about 12.2 million hectares.

Despite of good area under cotton cultivation, cotton output in India is estimated to be 312 lakh Indian size bales of 170 kgs in 2018-19, which is significantly lower than last year crop of 365 lakh bales mainly because of lower cotton yields resulting from the poor monsoon and drought like conditions in the

major cotton producing regions during the year 2018-19. This made the farmers to uproot the cotton plant leaving no scope of third and fourth picking.

The consumption is projected to be 315 lakh bales against the 319 lakh bales consumed in last year. The consumption is estimated to remain stable as mills focus on manufacturing blended yarns and fabrics with a higher percentage of synthetic fibre to offset the cotton price volatility.

The export of cotton is estimated to be 46 lakh bales in 2018-19 against the 69 lakh bales in 2017-18. The volume of cotton export declined over last year as the cotton price remained high for most of the season. The imports are likely to be at 31 lakh bales.

With lower cotton crop size and stable cotton consumption, ending stocks of the Indian cotton is projected to be at 15 lakh bales only which is almost 50 percent lower than the ending stocks of 28 lakh bales in last year i e 2017-18.

Particulars	Quantity in lakh Bales of 170 kgs	
	2017-18	2018-19
Opening stock	36	33
Production	365	312
Imports	15	31
Total supply	416	376
Mill Consumption	275	276
Consumption by SSI	29	27

Particulars	Quantity in lakh Bales of 170 kgs	
	2017-18	2018-19
Non- Mill Use	15	12
Exports	69	46
Total Demand	388	361
Closing Stock	28	15

(Source: Cotton Association of India)

Indian cotton for the year 2019-20 is projected to be increased mainly because of higher planting intentions of the cotton farmers and higher yields expected in the year 2019-20 as Indian metrology department and other weather forecasting agencies have forecasted near normal monsoon for the India for the year 2019-20. If the near normal monsoons happens in the year 2019-20, then Indian crop size for the year 2019-20 is likely to be more as compared to the crop year 2018-19.

Company Overview

Vardhman Textiles Limited is one of the leading textile manufacturer of India having its presence across a wide spectrum, from manufacturing yarns to fabric. Vardhman is one of the leading manufacturer and exporter of cotton yarn in India. The Company expanded its product offerings and entered into strategic alliance with leading global textile players to gain access to state-of-the-art technologies.



Financial Review

During the year under review, the Company experienced healthy growth on YoY basis in revenue and profitability on account of growth in downstream industry and robust inflow of orders. In accordance with the SEBI (Listing Obligations and Disclosure Requirements) (Amendment) Regulations 2018, the Company is required to provide details of significant changes (i.e. change of 25 percent or more as compared to the immediately previous financial year) in key financial ratios, along with detailed explanations therefore. Table 1 provides a summary of the financial parameters along with key ratios affecting the Company.

Table 1: Summary of Key financial Parameters and ratios

Particulars	FY 2019	FY 2018	YOY percent
Revenue (₹ In crore)	6,414.58	5,851.37	9.63
EBIDTA (₹ In crore)	1,349.72	1,043.61	29.33
PAT (Rs. In crore)	695.88	545.76	27.51
EBIDTA Margin (percent)	21	18	16.67
Debtors Turnover Ratio (Days)	43	45	(4.33)
Inventory Turnover (Days)	139	132	5.25
Interest Coverage Ratio (Times)	9.39	9.13	2.88
Current Ratio (Times)	7.27	6.40	13.54
Debt Equity Ratio (Times)	0.43	0.49	(13.29)
Net Profit Margin (percent)	10.85	9.33	16.31
Return on Net Worth (percent)	13.28	11.78	12.73

Return on Net Worth increased primarily on account of increase in net profits attributable to higher operating profits during the financial year 2018-19.

Outlook

As reported earlier, the Company had planned to undertake a capex of ₹ 1,400 crore (approx.) by 2020. This capex involved, on the yarn side, setting-up of about 100000 spindles and on the fabric side, setting-up of 3rd processing line at Budhni and about 275 looms. During the FY 2018-19, the Company has added 200 looms (approx.) and has implemented 3rd processing line at Budhni apart from implementation of 16300 spindles. A capex of ₹ 800 crore has been incurred by the Company during the year 2018-19. The remaining capex shall be done during the year 2019-20.