# NITIN SPINNERS LTD.

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**BSE Ltd.**
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**Company Code – 532698**

**National Stock Exchange of India Ltd.**
Exchange Plaza, C-1, Block G,
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**Mumbai – 400 051.**
**Company ID - NITINSPIN**

**Sub. : Transcript of Analyst/Investor Earnings Call held on 08.08.2022**

Dear Sir/Madam,

Pursuant to regulations 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find attached transcript of the Company's Analyst/ investor Call held on Aug 08, 2022 on Operational and Financial Performance of the Company for the Quarter ended on 30 June, 2022. The same is also available on the website of the Company i.e. www.nitinspinners.com.

Thanking you,
Yours faithfully,
**For- Nitin Spinners Ltd.**

NITIN SPINNERS LTD. HAMIRGARH (Bhilwara)

**(Sudhir Garg)**
**Company Secretary & GM (Legal)**
**M.No. ACS 9684**

“Nitin Spinners Limited
Q1 FY23 Earnings Conference Call”

**August 08, 2022**

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 08th August 2022 will prevail

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| **MANAGEMENT:** | **MR. DINESH NOLKHA - PROMOTER AND MANAGING DIRECTOR, NITIN SPINNERS LIMITED**<br>**MR. P MAHESHWARI - CFO, NITIN SPINNERS LIMITED** |
| **MODERATOR:** | **MR. AWANISH CHANDRA - SMIFS LIMITED** |

**Moderator:** Ladies and gentlemen, good day and welcome to Nitin Spinners Limited Q1 FY23 Earnings Conference Call hosted by SMIFS Limited. As a reminder, all participant lines will be in 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 touch tone phone. Please note, that this conference is being recorded.

I now turn the conference over to Mr. Awanish Chandra. Thank you, and over to you, sir.

**Awanish Chandra:** Thank you, Aman. Good evening, everyone. On behalf of the SMIFS Limited, I welcome you all to Q1 FY23 conference call of Nitin Spinners Limited. We are pleased to host the top management of the company. Today we have with us, Mr. Dinesh Nolkha, Promoter and Managing Director of the company, and Mr. P Maheshwari, CFO of the company. We will start the call with initial commentaries on results, and then we will open the floor for question-and-answer.

Now I will hand over the call to Mr. Nolkha, Managing Director of the Company. Over to you, Dinesh sir.

**Dinesh Nolkha:** Thank you, Awanish ji. Good evening and a warm welcome to all the participants to this investor conference concall of our first quarter results. I hope you all are keeping safe and healthy. I have with me, Mr. P Maheshwari, Chief Financial Officer of the Nitin Spinners. I hope all of you must have had a chance to look at our investor presentation that is uploaded on the company's website, as well as on the stock exchanges.

Let me first start with the industry and business scenario. As you all know, the cotton textile sector is witnessing a unprecedented situation in terms of heavy fluctuations in cotton prices in international and domestic markets, shortage of cotton in domestic markets and demand disruption due to high volatility.
The international cotton prices on ICE exchange after peaking to about USD1.55 per pound is now lower to about USD1.05 by June and December futures are now quoted at about USD 0.95a pound. Indian cotton prices of Shankar 6 have also touched the peak of about INR106,000 a candy in the month of May, is now down to about INR92,000 per candy, and December futures are quoted at about INR70,000 per candy.

Due to these heavy fluctuations, everyone in the downstream channel, producers of the fabric, garments have adopted wait and watch policy and avoiding the further order and waiting for cotton and yarn prices to settle down, and in the meantime, reducing their inventory pipeline.

Indian spinners are at a steep disadvantage since domestic cotton price is Abnormally higher than the international cotton prices, making it difficult for Indian yarn producers to compete in world markets. Moreover, shortage of the physical cotton in India have made the situation even more difficult. Spinners have contracted for imported cotton after removal of duty by government. However, due to logistic challenges, the cotton is arriving with a lag of around three to four months. Thus, spinners are facing serious shortage of cotton.

In this situation, spinners are resorting to production cuts to avoid heavy losses and pileup of inventory. This situation is expected to remain till arrival of new cotton which is expected in full form by end of October. However, with the increasing sowing of cotton and good monsoons and Government of India, the efforts of the various treaty, and FTA arrangements, PLI, Mega Textile Park and the China Plus One strategy which is already playing out, we believe that Indian textile industry’s long-term growth prospects remain positive.

Coming to the company's performance in this quarter. Due to increase in raw material costs and a small reduction in production, the margin remained under pressure. We have achieved the revenue growth of 28% year-on-year despite the challenging environment. Situation in current quarter remains extremely challenging, as international demand is much lower due to price uncertainty and volatility and it is uneconomical to sell the yarn by buying cotton at current market prices. As a result, during the quarter we expect the production to be lower. However, we believe that situation will restore to normalcy with the arrival of new cotton.

In view of current volatile situation, we are increasing the share in the value-added segments to reduce our risks. Our Woven Fabric segment now constitutes 19% of our total revenue in Q1 FY23 as compared to 12% in Q1 FY22, and 14% in the full financial year lasting ’22.

Regarding Capex, on the Capex front, we are on track with the execution and expect to commence the projects within the timeline and prices by us in our earlier communications. We are determined to have a sharp focus on our business and to deliver superior quality and wide range of products to our customers. We'll strive to maintain our top line growth momentum by optimizing our capital use and placing a strong emphasis on value-added product. Our differentiated strategy is characterized by innovation and sustainable practices.

This is all from my side. I shall now hand over the call to Mr. Maheshwari to give you the operating and financial highlights for the quarter gone by.

**P. Maheshwari:** Thank you, sir. Good afternoon, everyone, and thank you for joining the call. I would like to share operational and financial highlights for the quarter ended 30th June 2022.
Revenue for the current quarter increased to INR709 crore from INR555 in Q1 FY22, that is increase of 28% Y-o-Y. On quarter-on-quarter basis, the same has reduced by 8% mainly due to increase in inventories.

EBITDA for the quarter stood at INR109 crore as compared to INR129 crore in Q1 FY22 that is lower by about 15% on year-on-year basis. On quarter-on-quarter basis, the same is reduced from INR167 crore to INR109 crore.

EBITDA margin for the quarter is 15.4% as against margin of 23.2% in Q1 FY22 and Q4 FY22 margins of 21.8%. This was mainly due to increased raw material costs.

Reported PAT for the quarter is INR66 crore as against INR60 crore in Q1 '22 and INR86 crore of Q4 '22.

EPS and cash EPS for the quarter is INR11.66 and INR15.54 per share respectively.

During the quarter, we produced 16,700 metric tons of yarn as against 17,700 metric tons in Q1 FY22. Out of that about 25% of yarn has been captively consumed.
Knitted Fabric production was 1,545 metric tons during the quarter against 1,935 metric tons during last year, same quarter.
Woven Fabric production for the quarter was 70 lakh meters as against 62 lakh meters in Q1 FY22, and whereas, the Finished Fabric production was 61 lakh meters during the quarter as against 46 lakh meters in Q1 FY22.

That's all from my side. Now, I open the floor for question and answers.

**Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. First question is on the line of Manish from HDFC Mutual Fund. Please go ahead, sir.

**Monish Ghodke:** Sir, what was our average realization in spinning yarn and Knitting Fabric and Woven Fabric for Q1?

**Dinesh Nolkha:** Basically, you want to know the breakup of the top line or you want to

**Monish Ghodke:** Yes, sales price like what was, like INR400 per kg or what.

**Dinesh Nolkha:** Normally we do not disclose these particulars as what average realization we get. But I can just, I can give you a ballpark number, that we have realized more than INR400 a kg in the yarn side.

**Monish Ghodke:** Okay. And sir, fabric? This Woven and Knitting Fabric?

**Dinesh Nolkha:** Similarly, I think always Knitted fabric will be always higher than the yarn segment. In the Grey Fabric segment also normally, it is a mix of Grey, as well as the finished one. So, normally we do not share price that way.

**Monish Ghodke:** Okay. Okay. No problem. And sir, this fabric capacity which we have, so, Knitting and Woven, so, we make Grey fabric, as well as processed fabric for both?

**Dinesh Nolkha:** In case of Woven fabric, we make woven, as well as processed, both. In case of Knitted, the only do greige.

**Monish Ghodke:** Okay. Okay. And sir, in Slide 11, we have proposed Capex of INR955 crore. So, what would be the split of that Capex in Spinning, Knitting and Woven?

**Dinesh Nolkha:** This I have explained in our last conference call also, Would like to again share with you that out of this, nearly INR700 crore plus is going to go for our Spinning business. About Knitting business and Woven Fabric, Woven and Processing Fabric will be about INR155 crore, and another nearly INR100 crore will be for the margin money.

**Monish Ghodke:** Okay. And sir last question, what was the inventory gain in Q1 out of our EBITDA margin of 15%?

**Dinesh Nolkha:** I don't think there was any inventory gain for us. We continued to maintain a very reasonable level of inventory. So, which is already getting rolled over. There is no inventory gains. Rather, as I explained in my initial commentary, there are inventory, there are losses because of the prices going down.

**Moderator:** Next question is from the line of Prerna Jhunjhunwala from Elara Securities. Please go ahead.

**Prerna Jhunjhunwala:** Sir, I just wanted to understand how are you operating in current scenario where cotton price is really expensive, and it is difficult to pass on the higher price to the customer? So, what is your current operating utilization across businesses? And I mean, what kind of strategic decisions you have taken to overcome losses in the next six months?

**Dinesh Nolkha:** First of all, Prernaji, as we envisaged that the situation would normalize once the new cotton crop comes in, as we are already seeing the prices of raw cotton in the future or the new crop is already getting in line with the international markets. So, we do not expect that this challenge will last for another six months or so. We are expecting that another three months or so, by mid of November we should be in a normalized position.

Regarding the three months which we have in hand at the moment, and already one and a half months, which has passed, we are trying to see that we do not buy the new cotton at a higher price, because since the higher price cotton if you buy today, is not making any sense. So, accordingly we are right sizing our capacities as per the inventories which is already been --- cotton which has already been purchased by us.

As far as capacity utilization of various businesses is concerned, our Spinning business is operating I think at nearly 30% down in our standard capacity. As far as our weaving capacities and weaving and finishing capacities, they are running at nearly 90% levels. They are running at full capacity, what we normally operate it. And knitting capacity’s is also very, very down because the international brands are not sourcing this all over the world. So, that is also down to around 50%.

**Prerna Jhunjhunwala:** Okay. And sir, at current operating levels, you know that Spinning is 30% lower and Knitting is at 50% lower than our normal utilization rates. Will it be fair to assume that we would largely only breakeven in the quarter?

**Dinesh Nolkha:** I would not like to extrapolate that

**Prerna Jhunjhunwala:** As an industry if it would have been operating at these levels, because I don't want to understand your cotton purchase cost but just to understand that these operating levels must be across the industry also?

**Dinesh Nolkha:** Yes. Of course. Most of the industries operating today, if you see the average, what we understand is, that the cotton yarn production is down by about 40%, and 10% has moved to the alternate blends, synthetic blends. So, in all, about 30% capacity all over the country is down in most of the areas today. As such, the normal spinning mills are having different cost structures. Different spinning mills will have different cost structures. Depending on same, we will be able to judge the operating leverage, but we feel at these levels we should be able to, at 70% level, normally there is breakeven only. Beyond this level there will be definitely not.

**Prerna Jhunjhunwala:** Okay. And sir, last question on cotton versus blended. How much of your capacity has been shifted to blended currently and how is the performance there, because blended players are reporting decent performance till now?

**Dinesh Nolkha:** Yes. Definitely blended segment is better. Synthetic segment is still superior. And we have shifted about 7% to 10% of our capacity for which we were able to do because of our inherent machineries' availability. Beyond that, we are also not able to shift the capacity.

**Prerna Jhunjhunwala:** Okay. This is still good, sir. 10% capacity shifting to blended. Okay.

**Moderator:** Our next question is from the line of Amman from Augmenta Research Private Limited. Please go ahead.

**Aman Madrecha:** Like, given that you explained the whole scenario where some of the mills are not operational. So, what I was reading that some of the spinning mills since last three, four months are not able to operate profitably. So, like are we evaluating any inorganic growth opportunities, because there have been some deals that are passed through in Gujarat wherein, players with around 15,000 spindles were acquired by other players who have 1 lakh to 1.5 lakh spindles capacity. So, are we looking into some inorganic expansion currently?

**Dinesh Nolkha:** Not at this point of time, Aman. We are not looking at any inorganic growth. We are already into a phase where we are increasing our capacities by around 40% in spinning by organic manner. So, at this point of time not looking for anything beyond that.

**Aman Madrecha:** And sir, no change in plan about the commissioning of the project, right? Everything is on track, right?

**Dinesh Nolkha:** Yes. Everything is on track. Capacity expansion plan is going as per schedule. Spent nearly 10% of the money on the project commissioning and capacity additions. All the effective steps have been taken. Do not see any issue there.

**Aman Madrecha:** Okay. Because some players have halted their expansions and so, like. And sir, out of this total mix of around 500 sorry, we're spending INR700 crore for spinning. So, what would be the mix like? How are we looking to fund this thing?

**Dinesh Nolkha:** Out of this total INR955 crore, one-third is, nearly 30% is our internal accrual, which we are getting and about, INR655 crore is from the debt, which has already been tied up. These are long-term debts.

**Moderator:** Our next question is from the line of Chirag Jain from Kamya Wealth. Please go ahead.

**Chirag Jain:** Buyers aren't currently sourcing. So, I just wanted to know that the issues, whether there is an issue on the customer's demand side or due to falling cotton price they are not sourcing it?

**Dinesh Nolkha:** See, there are two issues attached to it. First is, we are having a very uncertain environment all around the world. We have a few challenges like Russia, Ukraine standoff. Number two, we have, there is a mindset that U.S. is going into recession. Thirdly, China having a COVID at the moment. That China's COVID policy, zero COVID policy where there is a lot of stoppages in China. So, all these factors actually and then the volatility in the commodity prices. So, all these factors are actually putting, let's say customers are not very sure whether what we should do in such uncertain times.

So, what they have tried to do is this, they have started to reduce their inventory. As we get to know from various retail sales happening all around the world, that there is no major decline in the apparel sales as such. But the mindset is to bring down the inventories. So, that if there is any shock, that is the much lesser than what it should be. That is the main reason why most of the customers have withhold their orders and tried to use the existing inventories with them.

**Chirag Jain:** Got that. Secondly, on the capacity addition, on the industry side, so, because we are seeing many players expanding currently in the spinning side, so, how do you see situation going three years down the line of the spinning?

**Dinesh Nolkha:** Like, spinning first of all, we have huge capacity in India. Like we have about 50 million spindles of capacity in India and annual addition is to the tune of about 2.5 million spindles, which is around 5%. So, we definitely expect the domestic, as well as our international industry to grow by that 5%. So, we do not see any major challenge over there. Rather, if you see the most of the machinery manufacturers, delivery of the machines is now beyond two years, two and a half years. So, this is a normal growth rate which should continue.

**Chirag Jain:** Got that. Also, your investor presentation mentioned about some forward integration you are adding on knitting side. So, can you please highlight more on that?

**Dinesh Nolkha:** Basically, since we are producing various kinds of knitted fabrics. So, we keep on looking at the kinds of fabrics which is not in our profile. So, we accordingly add up the knitting machines to suit those requirements, since we are now into quite a lot of finer counts and a lot of finer fabrics as well. So, we have added the knitting capacity over there.

**Chirag Jain:** Okay. Finally, my last question would be on the importing cotton. So, are we importing any cotton?

**Dinesh Nolkha:** Definitely, we are importing.

**Chirag Jain:** So**,** what is the percentage?

**Dinesh Nolkha:** Normally, it is not that because there is the shortage, we are importing. We are a normal importer of cotton. There are certain kinds of yarn which we produce, which needs imported cotton. So, definitely those extra-long, staple cotton and cotton required for contamination free, and we are regularly importing. Off-late, when we saw that there is a shortage of cotton, we pulled on and imported a bit more than normal. So, overall, if you see on an average basis, we have been importing 8% to 10% of our requirements annually.

**Moderator:** The next question is on the line of Kaushal Kedia as an individual investor. Please go ahead.

**Kaushal Kedia:** Yes. I just wanted to understand, what is the current cost of debt?

**Dinesh Nolkha:** Our current cost of debt is, our long-term debt is costing about 3% net of the state investment subsidies and working capital loans at this point of time, after all this increase in MCLR and other things is about 7%. Blended costs is about 4.5%.

**Kaushal Kedia:** So, this current, this new debt that you will raise will be of the similar cost? Will get state subsidy on that also?

**Dinesh Nolkha:** Yes, of course. We'll get the state subsidy on that as well. And it will be even lesser than this.

**Kaushal Kedia:** So, this state subsidy is not, you are not looking at it, it won't get withdrawn anytime soon, because there are murmurs of --- other states have withdrawn it, such as…with other states withdrawing, will Rajasthan also follow the same path?

**Dinesh Nolkha:** Not at least now, and once the state subsidy is sanctioned for a particular project, it continues to the life of that project. So, that is one thing which is there. Secondly, in fact, Rajasthan is having a Invest Rajasthan Conclave in first week of October, where they are going to announce another new scheme for this. So, at this point of time, at least we're not seeing any withdrawal of any policies.

**Kaushal Kedia:** Oh, so you are saying, suppose for example, if this new debt that you take, if it's for say, for example, 10 years. So then even if the state decides to withdraw the subsidy going forward, it will still stay for the full 10 years till it's completed?

**Dinesh Nolkha:** Yes.

**Kaushal Kedia:** That is very positive, because the cost of debt becomes very, very cheap then.

**Dinesh Nolkha:** Yes, exactly.

**Kaushal Kedia:** And sir, what is the average realization of yarn that is happening currently in quarter two? The figure was sir, INR400 last quarter. What is it currently?

**Dinesh Nolkha:** Like it was north of INR400 last quarter, and now in this quarter, it depends on the definitely on the counts, but on an average basis, what we are seeing is in the range of about INR350 to INR360.

**Kaushal Kedia:** So, what I understand is, since, just from understanding the business, cotton has also fallen roughly 10% and yarn has also fallen 10%. So, it's not the price that is an issue, it's the demand that is continuing to be an issue. What is the issue? Is it the raw material prices or is it the demand?

**Dinesh Nolkha:** Like at this point of time, we have both the issues. First of all, on the raw cotton side, we have seen that, if you see the cotton prices internationally have fallen by about 35% to 40%. On the ICE exchanges, it was USD155. Now, it is about USD96. So, this is a huge drop. And due to this, the cotton prices all around the world have fallen. Accordingly, the expectation of the customer for the new prices, has also fallen. Of course, it has not fallen by 40%, 50%, whenever raw cotton begins. The raw cotton constitutes about 55% to 60% of the total yarn value. So, accordingly that has been adjusted to 15% to 20% price reduction is expected by the customer from the top prices which we used to get. So, that is an obvious thing. when there was increase in raw material costs, the prices were increased. When there is a falling down. So, it will also come down.

But the problem is the timing. That is on the demand side. On the demand side what we have seen is because of this volatility, most of the customers are very scared. There is something, like ICE exchanges have fallen 30% within a span of three weeks, which is unforeseen. We have never seen this kind of things happening in last 20 years, 25 years that such a sharp reduction is happening in the international prices, as well as in the Indian prices. The Indian prices which were quoting at about INR106,000 to INR107,000 a candy are now, for December futures been quoted at INR70,000.

But here in India, if you see this, as this could be look like a normal situation, but when we come to the India specific position, what has happened is there is no physical cotton available. So, the physical cotton is still today being sold by traders which is in miniscule quantity at INR90,000 a candy or INR92,000 a candy. So, the problem is here that if you want to buy INR92,000 and then sell it INR78,000 a candy, the yarn price, that doesn't suit.

**Kaushal Kedia:** Understood. So, sir, at this point, you are going to expand, you have announced such a big capex. So, you're not nervous about it, because you think situation will normalize going ahead?

**Dinesh Nolkha:** Yes, of course, because this is unforeseen. We have not seen this in past. This has all happened due to I would say major issue is that it was a statistical failure on part of the industry, as well as on the part of the government bodies, which is involved in the assessment of the crop. And then we exported nearly 47 lakh bales of cotton and we had a drop of about 15% of the crop, and we exported another 15% out of our country without understanding the need of the industry. So, this particular situation normally never happened. So, this is why we are in such a situation today.

**Moderator:** The next question is from the line of Abhineet Anand from Emkay Global. Please go ahead.

**Abhineet Anand:** So, trying to understand FY22, we had a very sharp increase in margins, as one of the reasons also obviously, increasing cotton prices. So, if you assume a normalized scenario, not what we are facing now, and not that we be faced FY22, so in a normalized scenario, what could be the margin for the yarn and fabric business be?

**Dinesh Nolkha:** I've been elaborating on this always that the normal margins from the yarn business is in the range of 15% to 18%. That is a normalized margin. On the Fabric side, the normalized margins are in the range of, for integrated textile players like us, is about 18% to 22%%. So, this is the normal margin levels. So, whatever happened in last calendar year or last financial year was an aberration, you can say and whatever is happening today is also an aberration.

**Abhineet Anand:** Yes. So, basically depending upon your product mix, let’s 70% is yarn and 30% fabric, your margin will be anywhere between the two numbers that you told, right? Is it fair to assume that?

**Dinesh Nolkha:** Yes.

**Abhineet Anand:** Okay. Secondly, is there a conversion ratio of ICE cotton to the Indian cotton because a lot of people have been emphasizing that ICE was at USD1.50 fallen to USD0.95. India prices from INR1 lakh is only down to INR85,000. So, that's like comparing the peak to down, but I am saying just on an average, if we have to convert those numbers to

Indian, is there any number to that, so, that one can understand from an average perspective, what happened last full year to what has happened to Indian prices last full year?

**Dinesh Nolkha:** The average ICE prices? Like you want to know the average ICE prices?

**Abhineet Anand:** Average ICE prices I can probably have it from Bloomberg but what I'm saying is, that if you have to convert the ICE price to the Indian cotton price ideally and in that case, what could that be?

**Dinesh Nolkha:** Quite simple. ICE prices are on per pound basis. So, easily you can convert this into per kg by 2.2046 multiplying it. That is simple. And then this is an U.S. cents, so, you can convert this into Indian Rupees by multiplying it by the Indian currency factor. So, there you get the per kg price of the cotton which is being quoted and these are normally, these ICE prices are ex particular destination. Today ICE is basically, although, it is called the Intercontinental Exchange, but this is basically giving the spot prices of U.S. and then you add up the freight and other costs to a destination or depending also the quality of the cotton there. So, basically you can just convert this into Indian rupees and you will see the exact cost coming out and then you can compare Indian Shankar 6 prices, which is also available very easily for you. So, you can compare both of them.

**Abhineet Anand:** So, just what you said and what I understood is multiply those prices which is whatever cent it is, let's say USD0.95 or USD1 by 2.2 nd then that is in U.S. dollars and then you have to convert it into INR, right? That gives you rate in terms of…?

**Dinesh Nolkha:** Yes.

**Abhineet Anand:** Okay. And thirdly sir, you talked about buying cotton at INR90,000 and selling yarn at INR78,000. So, this INR350 per kg to INR360 per kg of yarn here, that corresponds to around INR70,000, INR,80,000 of cotton? Is it fair to assume that?

**Dinesh Nolkha:** This is around --- means basically, lower the cotton price better for us. So, that is not, but normalized margins are at this level are basically the prices at which today yarn is being sold, if you come back, if you want spinner to have normal margin then it would be fair to assume that the raw cotton price would be in the range of INR73,000, INR74,000 --- INR73,000 to INR75,000.

**Abhineet Anand:** Okay. So, around that INR73,000, INR74,000, you will make a normalized margin, at these yarn prices?

**Dinesh Nolkha:** Yes. Yes.

**Moderator:** We have the next question from the line of Shradha from Asian Market Securities. Please go ahead.

**Shradha Agrawal:** Yes. Hi. What was the cotton yarn spread that we had in q1? Ad at the prevailing prices, what are the spreads?

**Dinesh Nolkha:** Basically, in the Q1, the spread is in the range of about INR90 a kg. It was very volatile in the month of April. It was very normal in the month of May. It was very volatile, and in June it became too low. At this point of time, if you say, it depends on the cost of cotton which we consider. So, it will vary for each spinner at this point of time.

**Shradha Agrawal:** Assuming the cost of cotton is INR83,000 a candy, then what is the spread that you would be making?

**Dinesh Nolkha:** On INR83,000 a candy the delta would be about INR55 a kg or INR60 a kg.

**Shradha Agrawal:** Okay. Sure. At these spreads, what is the margin that we can expect for the industry?

**Dinesh Nolkha:** At INR50. At this level, I think it will be in single digit margin.

**Moderator:** Our next question is from the line of Vikas Rajpal from Reliance PMS. Please go ahead.

**Vikas Rajpal:** The first question is on the current situation of cotton prices, the disparity between the global prices versus the Indian prices. I understand that is like a one-off situation, but, sir, if the situation arises again in the future, how do we plan to mitigate the situation?

**Dinesh Nolkha:** First of all, this is a situation which is not happened in past and this was first time that we are seeing that on one side there is no raw materials. Raw material is scarce. There is no raw material available. And on the other side, we are seeing that the finished goods does not have demand. Normally, this does not happen.

Now, we have been able to mitigate this, at this point also, that we have not been able we are not carrying huge inventory, due to which we are not incurring any inventory major inventory losses. I would say the only thing which we are losing at this point of time is that we are not able to produce to what our normal capacity levels and accordingly, incurring overhead and reducing our margin. So, that is the only challenge which we have.

Now, how do we mitigate in future is something which will be depend on the situations at that point of time. Today the major problem, in the normal circumstances, imports could have been opened up in reasonable time. India could have imported a lot of cotton and accordingly taken care of all the shortages, which has happened in India, and also the prices of let's say, raw material would have been in parity with the international prices, because Indian cotton was far, far expensive than the international cotton.

So, this situation would have not come, I hope that our policymakers understand this and keep the imported cotton freely available as they have a very good support mechanism in terms of minimum support price already in cotton, for the farmer. So, similarly, for the textile mills, they should keep these imports open and should have a fair balance of raw cotton. This was the available with us, this facility was available for us for last 2011 to 2021. Only for one year the facility was not available, and we hit at the wrong time.

**Vikas Rajpal:** Sir, my concern here is that, if such a situation arises in the future, because by FY24, I think all of our capacity will come on board. So, you know, if the at that time the situation arises, what will happen is that, you know, again, will have to cut production and then we'll be sitting on huge capacity, which will be underutilized, which will result in fixed overhead. So, that is why I was asking.

**Dinesh Nolkha:** Basically, well one more thing, which is being done by most of the industry players, as well as by us, that we are now, whatever capacities are coming up, we are trying to make it more flexible to be used for synthetic fibers as well. So, we are able to use manmade fibers also . So, the capacity which we had installed in our earlier years till 2014-’15 are not having that facility where we can use them for cotton as well as synthetic at a similar point of time.

Now, the most of the capacities are being designed in a manner where both have kind of fibers to be used. And I think the shift towards synthetic will happen more, that will help us mitigate this effect in effective manner. Secondly, already there is a program which has been taken up by various industry associations, as well as by Government of India to increase the yield of the cotton which is being produced in India. That we have reached a level where we are already --- if you see the total production of cotton and total consumption of cotton in India, it has still not surpassed. India has been producing about 3 lakh bales. Now, our consumption is also in the similar level. Only the exports which has happened is actually damaged the whole thing. I hope government will also take cognizance of this and take care, but from the industry side also, now the production is going to be increased substantially. The planned program has already been taken. We do not expect the situation to come back again even two, three, four years down the line because synthetic capacity is also growing, so that fibers will be available as such for spinning.

**Moderator:** Our next question is from the line of Pushkar Jain from Sequent Investments. Please go ahead.

**Pushkar Jain:** My question was regarding the yarn spread as you mentioned it was INR90 per kg. Earlier we used to see your level of INR300 per kg to INR350 per kg. What do you think is the normalized level of spreads that we will have for 18% margin that we talked about?

**Dinesh Nolkha:** Normally, as I told you, with 15% to 18% means, around 15%, 16%, the margins are the different. It depends on the cost of the mill. It should be in the range of INR90 to INR100.

**Pushkar Jain:** The yarn spread?

**Dinesh Nolkha:** Yes, yarn spread.

**Pushkar Jain:** The normalized yarn spread?

**Dinesh Nolkha:** Yes, normalized yarn spread. And this was INR90 to INR100 was available to us in the past year, which is the from 2015. 2014-'15 to 2017-'18 also, we had this kind of margins.

**Moderator:** Our next question is from the line of Monish Ghodke from HDFC Mutual Fund. Please go ahead.

**Monish Ghodke:** Sir, over long-term, do we have any plans to enter into garmenting?

**Dinesh Nolkha:** Long-term is a word which needs to be looked into. But I would say at this moment, we are not having any plans. Going forward I would not like to comment as such, at the moment.

**Monish Ghodke:** But we cannot rule it out, right?

**Dinesh Nolkha:** Of course, you can say that. We are in textiles and garment is one of the second last chain. After this, there is only retail left. So, you cannot rule this out. We are into this business and we have grown this horizontally and vertically, both integrated ourselves from the yarn to others. So, we should never rule that out.

**Monish Ghodke:** Okay. And sir, one more thing. Fabric generally provides higher margin than yarn you know, and we also get even forward integration. So, it also reduces volatility in our margins. So, and currently, I believe we are consuming 25% to 30% yarn internally. So, you know instead of expanding more into fabric, why are we putting more yarn capacity? Like what is the rationale?

**Dinesh Nolkha:** This is a very nice question. Means, ideally, I would like to definitely expand the capacity towards the value-added. Definitely that is the very ideal situation where we can expand the capacity, but there is a limitation to the various segments in which you're operating. So, you cannot grow exponentially your fabric business from x to 2x to 3x. It takes a bit more time because it is more related with the fashion. So, you have to establish your products, various products in that business.

Whereas, in the Woven Fabric business, we are just nearly 2.5 years old. We started our first operation in early 2020. And within that short span where we had COVID, as well as various issues, we were able to establish our product and then we are now looking, we are already adding some capacity in this expansion. And then going forward, we have all the infrastructure available with us to grow ourselves into this segment particularly. So, this part is already in the pipeline, that we will continue to grow our capacity and we aim that we should have much more share of the finished fabrics in our whole overall revenue share.

As far as Spinning is concerned, we feel that we have a very good cost structure available with us. We have the technical capabilities there with us and we can produce with a very, very reasonable, at a very reasonable cost. That is also testimony, my this confidence is further strengthened that even in these troubled times we are not going under the water and we are trying to operate in a very reasonable manner. So that is one of the strengths which we have and that we do not want to lose. We want to continue to have a strength in the yarn business. That is the reason why we are trying to expand in the yarn also.

Here also, we are not trying to expand only in one particular count or the average counts like commodity counts which we have, but here also we have a wide variety of products which we are adding to our portfolio. So, that will help us in also diversifying our existing risk cycle. It is not a commodity-based product which we are going to get in going forward in the yarn as such.

**Monish Ghodke:** Okay. So, sir, in quarter one you said that INR90 was the spread. So, this you are talking about the industry spread, right? So, our spread could have been higher than this, right?

**Dinesh Nolkha:** I'm talking about our spread. Industry spread could have been lower even than this or near to this. Depends on what cotton cost…actually, in this particular quarter, the spread, you cannot say, for particular player or a party because it depends too much on what kind of cotton cost, what was your cotton cost?

**Monish Ghodke:** Okay. Okay. No sir, because, I mean, in Q1, the cotton prices were higher than Q4 and we must have bought the cotton 30, 40 days earlier.

So, although you said there was no inventory gain, but we could have benefited just because we bought when cotton prices were lower, and eventually the prices went up, right?

**Dinesh Nolkha:** Actually, you see at the end of March itself, the cotton prices were around INR90,000, INR95,000 a candy. Already they touched INR90,000 a candy, and it peaked at about INR105,000, INR106,000 in the middle of May. So, if you see the average cotton prices during the whole quarter, they were all averaged out. We also bought at that level. We bought less, that's all. That is why we are not having any inventories now. Otherwise, if you would have continued to buy at the same pace, the issue could have been more difficult at this point of time. We tried to follow a policy which we have been following for last 8 years, 10 years, that we buy only what we are able to sell out. So that is one of the reasons why we are not having too much of inventory.

**Moderator:** The next question is from the line of Marshal, an investor. Please go ahead.

**Marshal:** Yes. It was mentioned that in the earlier question, that currently the capitalization is 70% or something and we will be hardly breakeven this quarter. So, if you can just explain again that what is the current capacity utilization for the Spinning and for Fabric and for Knitted and Woven, please.

**Dinesh Nolkha:** Our Spinning capacity is operating at about 70%. They're down by 30%. Our Weaving and Processing capacity is operating at about 90%. So, that is a normal, what we have been already operating in past quarters as well. And our Knitting capacity is operating at 50% capacity level. Normally, it operates at about 75% to 80%.

**Marshal:** So, 50% last time.

**Dinesh Nolkha:** Yes. I'm talking about the current.

**Marshal:** Yes. You are right, sir. And sir, when you mentioned that like in second quarter it will be hardly breakeven. So, this was in context of the all three segments or only for Spinning?

**Dinesh Nolkha:** Majorly for Spinning.

**Marshal:** Spinning. Okay. And sir, like when this new capacity is going to come on board? Will it get added in phases or will it come altogether in one shot?

**Dinesh Nolkha:** No, no. This is going to come in phases. Basically, we are expecting our Knitting and Weaving capacities, value-added capacities to come within this financial year. Spinning capacity will be added in Q1 and Q2 of the next financial year.

**Marshal:** But sir, if this market is so like up and down, volatile, whether this use of CapEx is justified now?

**Dinesh Nolkha:** Sir, we have been seeing this kind of volatility in this business. So, it is not something that we are not accustomed to volatility. Yes, this time it has been too much. I agree with you, but you cannot stop your businesses or stop to grow. We have been, if you see our history, in last 20 year, we have grown with a CAGR of about 18% to 19% consistently. We continue to invest in new technologies, try to see wherever there are new opportunities coming in. So, we continue to do that. And still, we have belief in textile sector. Textile sector has not gone out or it is not something that it is volatile, this will go out. We foresee that there are a lot of opportunities which is there.

Today, we are seeing basically China Plus One strategy playing out properly. It has definitely changed the business dynamics and demand shifting to Bangladesh, Vietnam, Pakistan and Sri Lanka from China. We are seeing a lot of changes happening in the product profile. Within our own country also we are seeing a lot of new capacities in the downstream channel coming in. So, demand of yarn is not going to go out. Yes, this particular situation has come up where there has been too much of volatility on the raw material side. So, we'll have to weather that down.

**Marshal:** So, I'm sure that regarding this volatility like cotton textile industry has taken suitable presentation to the government, so that in the next cotton season, if the same thing happens, then the government should allow the import of cotton. Has it been done or not, sir.

**Dinesh Nolkha:** Yes, of course, this has been done. Rather, we have taken up many measures in this particular segment. Government is already been informed, is very well informed about the situation. They're also working very, very effectively on the increasing the production, as well as yield of cotton. So that we have sufficient availability. They foresee that if India has to go to USD100 billion of exports, and having strength in cotton textile, they need to grow more cotton. Secondly, import of cotton, we have already highlighted, that it should be freely available, and they have definitely promised that they will continue to look at this in a very consistent manner without harming the interest of the farmer. So, we foresee that this kind of challenges which has happened in past could be mitigated and it doesn't recur.

**Marshal:** Yes. Yes. So, sir, this new capability which we're building up. So, in that capacity, can you also produce manmade fiber or not?

**Dinesh Nolkha:** Yes, of course. As I explained in the earlier question, that we are trying to do the new capacity in a manner that we are able to run the manmade fiber as well in the latest capacity which we are putting up. In our earlier capacities, those capacities which were installed pre-2014, we cannot run manmade. We have to invest a lot, if you have to run the manmade fiber on those mills. Otherwise, they are capable in our new capacities to run the manmade fiber as well.

**Moderator:** Next question is in the line of Zain Banihali from Odyssey Capital Management. Please go ahead.

**Zain Banihali:** Hi, sir. Most of the questions have already been answered. My question is on two fronts. One is, can you please tell us what percentage of the revenue comes from top five customers?

**Dinesh Nolkha:** I think the total revenue from top five customers could not be more than about 15%, 16%.

**Zain Banihali:** Okay, sir. That's good. This China Plus One thing that's going on, so who's going to benefit more from it, the manmade fiber industry or the yarn particularly?

**Dinesh Nolkha:** Like in the yarns also we have manmade, as well as in the cotton. But here the whatever is getting shifted out of China, because a lot of restrictions has come in on the cotton production of the China. If you see, what has happened is they've banned the Xinjiang cotton to be used in Europe and U.S.by most of the brands. So, a law has also been passed this year about this. So, we expect that cotton industry should benefit more out of this. Already, as far as synthetics is concerned, they are getting advantage because of lack of shortage of cotton. This shift will be again, since the capacities will align themselves, the capacities will again shift back to cotton when the demand is normal.

As far as India getting benefitted, we have to actually increase our capacities in the downstream channel. For the spinning business, we are very well geared up and the capacities are also coming in the right direction. But downstream channel has to increase the capacity substantially especially the garments, that needs to be built up so that we are able to sell the finished product. As more and more finished product is sold out of our country, more benefit comes to us.

**Moderator:** The next question from the line of Prerna Jhunjhunwala from Elara Securities. Please go ahead.

**Prerna Jhunjhunwala:** I just had a follow up question on the comment made just sometime back, that the cost of investment by including MMF based production will increase if we are setting up a capacity in spinning for cotton plus MMF versus only cotton. I just wanted to understand the difference between the two? The cost difference between the two types of investments?

**Dinesh Nolkha:** No, no, no. I think you misunderstood my answer. I have informed that our capacities which were installed pre-2014 are not suitable to run the synthetic fiber. If we have to run synthetic fiber on them, we have to make a lot of investments. Post that, what we have done is, the new equipment which is coming in, are now suitable to run both the kinds of fibers. This is, when we do initial investment, we can just with a very small number, with a very small amount of money that we are able to run basically synthetic fiber.

Here also, I would like to highlight that cotton spinning is more expensive, because you have more numbers of machines. You have combers and you have other equipment also running which remain stopped when you run synthetic fibers most of the time. So, actually if you see the cost of a spinning mill on the cotton side is higher than the cost of a synthetic spinning mill. The only thing is you have to gear up your equipment according to the needs. So, that we have both the things could run together. Whenever need arises, we can run both the kind of fibers.

**Prerna Jhunjhunwala:** Sir, you can run 100% new capacity on MMF also now?

**Dinesh Nolkha:** Not 100%, means basically we have to blend some cotton in it. We will have to blend some cotton. We will not be able to run 100% manmade.…

**Prerna Jhunjhunwala:** Then it will be blended versus blended…

**Dinesh Nolkha:** Yes, of course.. We can run blended, of course. We can run nearly all capacity in blended.

**Moderator:** Our next question is from the line of Swapnil, as an independent investor.

**Swapnil:** Actually, again, most of my questions are answered but just one follow up question on that the current quarter breakeven point that was discussed just now. So sorry, I missed the initial part of that. And so, with the current capacity that you mentioned sir, the 70% of the yarn capacity and the 80% or 60% of the Knitted fabric etc., that is for the current quarter Q2, is it? Or you're talking about Q1? So the breakeven or just the breakeven that we are going to achieve, is it for the last quarter that we're talking about or the current quarter?

**Dinesh Nolkha:** I'm talking about the current quarter, running quarter, July to September.

**Swapnil:** So, for the last quarter we should expect only breakeven?

**Dinesh Nolkha:** Yes. In the last quarter, if you see that we have run, our production was down just 5% and really on account of some power outages which happened in Rajasthan and some ghost accounts which we had to stop otherwise more or less complete production had come in.

**Swapnil:** Okay. So, so far, basically for the current Q2 quarter, we should expect only the breakeven with this issue currently?

**Dinesh Nolkha:** Still, we have time to go on that. So, I would not like to give any guidance on that.

**Moderator:** Thank you. Ladies and gentlemen, that will be our last question for today. I would like to hand the conference over to Mr. Awanish Chandra for closing comments. Thank you, and over to you, sir.

**Awanish Chandra:** Congratulations Dinesh sir and Maheshwariji on this decent performance in a tough environment. Since we are completely out of time, sir, very quickly quarter two everybody knows that we are facing the challenging time. But considering quarter three, we will have a festival season and we have indication of cotton prices going down at least on the future side. And we have positive news on cotton crop as well. So, can we expect in quarter three onward, we will have again at least hitting the performance of quarter one.

**Dinesh Nolkha:** Quarter three would be very --- still too early to predict quarter three, because quarter Three, when we when the crop comes in, what is the kind of situation of the Indian spinning mills and how the demand is there. So, these two, three issues will be there. But definitely we expect Q4 to be very normal. That should be a very, very normal quarter. In Q3, we have to still see the timing. That depends a lot on when the rain are coming up. If we receive rain at the late end of the season, that delays the cotton crop, arrival of the quantity which is coming in. So, there are many issues involved in this. So, we expect the quarter three to still fluid. But definitely, we expect it should normalize in Q4.

**Awanish Chandra:** Okay, sir. Thank you very much Dinesh sir and Maheshwari sir for spending your valuable time and providing us this opportunity to host the call. Sir, any final comments before closing?

**Dinesh Nolkha:** I'd like to thank everyone for joining in the call. I hope we have been able to address most of the queries. For any other information, further information, you can get in touch with our finance team, as well as our Investor Relations advisors. And thanks again once again for taking the time out and joining us on the call.

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

**Dinesh Nolkha:** Thank you.

**Moderator:** Thank you.