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**BSE Ltd.**
Phiroze Jeejeebhoy Towers
Dalal Street
**Mumbai – 400 001**

**Company Code – 532698**

**National Stock Exchange of India Ltd.**
Exchange Plaza, C-1, Block G,
Bandra Kurla Complex,
Bandra (E),
**Mumbai – 400 051.**
**Company ID - NITINSPIN**

**Sub. : Transcript of Analyst/Investor Earnings Call held on 13.05.2022**

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 May 13, 2022 on Operational and Financial Performance of the Company for the Quarter and Year ended on 31st March, 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.**

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

# "Nitin Spinners Limited Q4 FY-22 Earnings Conference Call"

## May 13, 2022

**Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 14th May 2022 will prevail**

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| **MANAGEMENT:** | **MR. DINESH NOLKHA – PROMOTER & MD, NITIN SPINNERS LIMITED** |
| | **MR. P. MAHESHWARI – CFO, NITIN SPINNERS LIMITED** |
| **MODERATOR:** | **MR. AWANISH CHANDRA – SMIFS LIMITED** |

**Moderator:** Ladies and gentlemen good day and welcome to Nitin Spinners Q4 FY22 Post Results Conference Call hosted by SMIFS Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Awanish Chandra. Thank you and over to you Awanish.

**Awanish Chandra:** Good evening, everyone. On behalf of SMIFS Limited I welcome you all to Q4FY22 conference call of Nitin Spinner Limited. We are pleased to host the top management of the company. Today we have with us Mr. Dinesh Nolkha – Promoter and Managing Director and Mr. P. Maheshwari – Chief Financial Officer of the company. We will start the call with initial commentaries on results and then we will open the floor for question and answers. 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 afternoon and a warm welcome to all the participants to the investors meet post our annual financial year results of Nitin Spinners. I hope you all are keeping safe and healthy.

I have with me Mr. P. Maheshwari – Chief Financial Officer of Nitin Spinners. I hope all of you must have had a chance to look at our Investor Presentation that is uploaded on company's website as well as stock exchanges.

Nitin Spinners is India leading manufacturer of the cotton yarn, blended yarn with fabrics and woven finished fabric. The company's leadership in cotton and blended yarn and fabric manufacture is driven by delivering international quality standard products with the continuous investment in the latest technology.

We have achieved the highest ever revenue of Rs. 2,692 crores making a growth of about 66% along with highest ever profitability during this year. We have almost doubled our exports during the current year as compared to previous year. We are contributing deeply to the nation's textile export by not only expanding our business with existing customers but also improving our clientele by associating with the whole global and domestic brands. At present we are operating at nearly optimum capacity and strategically enhancing capacity in all the segments that is spinning, stitching, and woven fabric to meet the increasing market demand. In this we are also increasing our blended yarn production capacity substantially. This expansion shall take place with the total project cost of Rs. 955 crores which will be funded by term loan as well as internal accruals.

We aim to capture the benefit of growing market opportunity in international as well as domestic market and strengthen company's position by widening our product portfolio as well. These projects will be eligible for the interest subsidy and other benefits under the Rajasthan state investment promotion scheme. The expansion project as informed earlier is progressing as per schedule. Nitin Spinners as a company is having distinctly differentiated brand image and is known for longstanding customer relationships and globally accepted quality standard.

Our unique R&D for developing value added products has led to value creation for both our clientele in domestic and global markets and made us a preferred supplier to them for a long term. In Nitin Spinner we are geared up for upcoming year with all the positivity in spite of unprecedented time and input price challenges. With our differentiated strategy marked by innovation and sustainable practice, we strive to maintain our top-line growth momentum optimizing our capital utilization and thrust on value-added product.

I shall now handover the call to Mr. Maheshwari to give you the operating and financial highlights for last financial year as well as the Q4.

**P. Maheshwari:** Thank you sir. Good afternoon, everyone. Thank you all for joining the call. I would like to share operational and financial highlights for the quarter and year ended 31st March, 2022.

Revenue for the Q4 FY22 increased to Rs. 769 crores from Rs. 512 crores in Q4 FY21 that is increase of 50% on YOY basis. The full year revenues stood at 2,692 crores as compared to 1,624 crores in FY21 that is registering a growth of 66% on yearly basis. This has been our highest ever turnover. Apart from operational efficiency and value-added products increased selling rates due to higher raw material price also resulted in higher revenue.

EBITDA for the quarter is stood at Rs. 167 crores as compared to Rs. 104 crores in Q4 FY21, that is a growth of 61%. For the whole year EBITDA stood at Rs. 652 crores as against Rs.257 crores in FY21, that is a growth of 153%. EBITDA margin for Q4 FY22 is 21.8% against Q4 FY21 margin of 20.4%. For full year EBITDA margins stood at 24.2% against last year 15.8%.

Good international demand coupled with operational efficiencies and value-added products resulted in better margins.

The company has reported PAT of Rs. 86 crores during the quarter as against Rs. 43 crores in Q4 FY21, that is 99% growth on YOY basis. The full year profit after tax is Rs. 326 crores against Rs. 69 crores in FY21 that is a growth of 374%. Earning per share for the year is Rs. 58 per share against last year 12.25 per share and cash EPS for the year is 73.56 per share against last year is 28.44 per share.

The board has recommended final dividends at the rate of 25%, that is Rs. 2.50 per equity share. The aggregate dividend for the year is Rs. 4 per equity share including interim dividend of Rs. 1.5 per equity share.

During the year we have produced 71,850 metric tons of yarn as against 63,973 metric tons in last year. Out of the yarn produced about 24% yarn is captively consumed in knitted fabric and woven fabric division. Knitted fabric production was to the tune of 8,057 metric tons during FY22, while it was 7,375 metric tons last year. Woven fabric production for the year was

269.47 lakh meters against 234.81 meters in FY21. The finished fabric production was 213.73 lakh meters in FY22 against 143.02 lakh meters in FY21.

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

**Moderator:** Thank you so much. We will now begin the question-and-answer session.

We take the first question from the line of Yogansh Jeswani from Mittal Analytics.

**Yogansh Jeswani:** We have seen cotton prices have shot up very high and the yarn prices have also moved up, there were some articles like yarn prices have also not moved up in line with the increased cotton prices. So currently what kind of spreads are we seeing between yarn and cotton? How have they behaved compared to Q4 and Q1?

**Dinesh Nolkha:** You're very right. The cotton prices have shot up substantially. The cotton prices are now around Rs. 1 lakh per candy which was at about Rs. 80,000 a candy in February22. Definitely there is a substantial increase and rightly mentioned that cotton yarn prices have not moved in tandem as with the cotton prices have moved. Generally, this increase in prices is more speculative due to shortage of cotton in the country. The yarn prices are moving ahead but not moving to the tune what the raw cotton is moved and practically with the lag effect of about 1.5 to 2 months it is moving ahead. At this point of time for normal margin we were able to pass on the prices till Rs. 87,00-88,000 a candy. So still, that's a lag of about Rs. 25-30 a kg still to be passed on to the customers.

**Yogansh Jeswani:** This year you are saying 25 to 30 in Q1, this is still due to be passed?

**Dinesh Nolkha:** Yes, exactly.

**Yogansh Jeswani:** Given the final price cotton has seen of late what we are noticing is most of the companies' inventory of cotton has doubled from what it was last year. A lot of it because of the higher price and also a lot of them have stronger quarter while in our case we see the increase in absolute value of inventory is hardly 50 crores odd. Could you share some insights on what the management is thinking behind this, why do we have a lower cotton inventory in terms of the volumes

**Dinesh Nolkha:** Normally at the end of the year the stock as per our order book position which is about depending on the order book about 3 to 4 months. But this time we could not book so much of orders because of difficult geopolitical situation happening in Ukraine and Russia, due to this order book people were scared to book the very long-term orders. We had short-term orders and accordingly our inventories also accordingly kept with us. We had at the end of the year about 2 months inventory and accordingly the orders were also for that much.

**Yogansh Jeswani:** Are we seeing this demand picking up now or are we still facing any challenges here in terms of order booking, are we seeing more enquires now?

**Dinesh Nolkha:** In terms of enquiries and orders actually normally most of the customers used to book orders in the month of February and March for next 4 to 5 months as per the fashion season of the product. But because of this war like situation and also COVID happening in China, people were scared to book very large orders. They just are booking on a monthly basis. We are getting the orders on a monthly basis till now. Now people are thinking that maybe this can continue for longer period of time and they have to also run their factories and also the run their businesses. Now the orders will start to look up but people were more or less utilizing their own inventories to the maximum possible and reducing plus these costs also increased substantially. Everybody at the higher prices of raw cotton and higher prices of cotton yarn, are slightly scared to buy a very long-term order.

**Yogansh Jeswani:** Are we seeing any challenges in terms of utilization on a monthly basis or the orders are sufficient to keep the utilization at 90%?

**Dinesh Nolkha:** At this point of time, we are not facing any challenge for utilization of our capacity. That is still going on at full capacity.

**Yogansh Jeswani:** Last question from my end, given the huge cash flows and the fantastic execution that our company has done over the last 2 odd years, we have created good cash flows and have repaid a lot of debt. I was just looking at your balance sheet numbers and from Rs.1000 odd crore debt level in 2022 to now some less than Rs.700 crores debt we have. If I look at the actual finance interest outgo, it is somewhat similar. We paid out around Rs.50-55 crores in FY20 then Rs.62 odd crores in FY21 and this year again it was still Rs.55 crores, while our debt has reduced by 30%. So, what explains this difference?

**Yogansh Jeswani:** Some interest like interest on income tax and others which got paid during the last financial year to be paid. That is amounting to about a Rs. 2.5 to 3 crores. Also, we have seen that certain interest subsidies which was due, a small amount of interest subsidies which was due from the TUF was not forthcoming which was very old. So that was also written off. So, all that put together this interest cost is slightly higher than what it used to be. Now in the normal circumstances we are seeing this is about 56 crores. This should be in the range of about Rs.50 crores, Rs.5-6 crores are the costs which I have just mentioned.

**Moderator:** We take the next question from the line of Kaushal from Valcore.

**Kaushal:** I just want to understand what was your capacity utilization in 2017-18 and 19 on an average basis, can you help me with that?

**Dinesh Nolkha:** I will not be having the data of last 2017-18 and 2018-19 actually with us at the moment.

**Kaushal:** Currently the capacity is running at what level?

**Dinesh Nolkha:** Currently capacities, like our spinning capacity is running at about 96% utilization level for last financial year. I'm talking about last financial year. Our weaving capacity is being utilized at about 95%. Our knitting capacity is being utilized at about 85% and our finished fabric capacity is being utilized at about 83%.

**Kaushal:** How much was knitting?

**Dinesh Nolkha:** It is about 85%-86%.

**Kaushal:** In the previous question you mentioned that Rs. 25 to 30 per kg price is yet to be passed on in in tandem with the increase of cotton prices, right?

**Dinesh Nolkha:** Yes.

**Kaushal:** That's about roughly about 8% to 10% increase you have not taken whereas cotton has increased by that percentage?

**Dinesh Nolkha:** The yarn prices are in the range of about Rs. 400 plus. If it is about Rs. 25 to be passed on, it is about 5% to 6% of the yarn price.

**Kaushal:** I want to understand. Though yarn manufacturers in the entire sector, is the pricing power slowly shifting to them because there's not been major capacity additions in the last 3-4 years and from what we understand is that one cannot add more than 2 million spindles going forward for the next 3 to 4 years. So, is the pricing power really in the hands of the yarn manufacturers? Is it shifting like if you compare to last 5 years and the situation currently is it shifting?

**Dinesh Nolkha:** I cannot answer this question emphatically and we'll have to see this coming up year whether the prices have changed because if you see the history, last year the cotton prices when we started the financial year was about Rs. 46,000-47,000 a candy. Now it is Rs. 95,000 a candy. The yarn prices was about Rs. 240 to 250 a kg which is now Rs. 400 a kg. Definitely spinners were able to pass on the prices. However, our downstream industry in the fabric, in the apparel fabric manufacturing and in the home textile industry has not been able to pass on these kinds of prices. But as we all know when this increase happens of 60%-70% increase in the finished good prices it takes time to pass it onto the retail customer. The year which is coming up now will decide whether this shift permanently for us or still the downstream industry will play an important role.

**Kaushal:** Just on the capacity utilization question, coming back to it you don't have the numbers. I'll take it from maybe the investor relations people later. But is the capacity utilization for FY21-22 better than the capacity utilization for FY17-18-19, just on an average basis?

**Dinesh Nolkha:** Yes of course it is better. We have seen an increase, we had some stoppages due to COVID in year 2020-21, also in 2021-2022 we added some more capacity. We had some debottlenecking done, so accordingly our production is up by about 12%. Our yarn production last year was in the range of about 63,000 tons. Now it is in the range of 72,000 tons. Definitely our production has increased there as well.

**Kaushal:** So that was mainly due to demand also in the last 1 year. This demand was stronger than what it was in 2021.

**Dinesh Nolkha:** Basically, we have been utilizing our spinning capacities to the full level, (+95%) is the normal norm in our spinning industry to utilize to that level. So, barring unforeseen circumstances during COVID production was stopped. It is more related with improving on efficiencies, debottlenecking the plants and adding some different kinds of products in the basket. So that actually has improved our productivity.

**Kaushal:** I want understand one more point to understand the industry better, while cotton is primarily used for spinning, cotton is not used for anything else, majority of the cotton produced in the world is used for spinning. So, if cotton prices increase why can't we increase yarn prices in tandem to cotton prices?

**Dinesh Nolkha:** Definitely we have been increasing, it is demand and supply base situation. If the production of the cotton is less than the consumption of the cotton then the cotton prices increase basically and also the speculative element to it. These are all listed on the exchanges even in India we have it on MCX, in US it is on ICE, various other countries are also having exchanges to deal with and speculators and hedge funds enter into this kind of products and create their positions which artificially increases the prices many a times. Ultimately retail or the normal masses is our customer. We need to increase the cotton prices then yarn prices and then ultimately the finished good prices. As we all know with the change going ahead it takes a bit more time in passing on those prices. But most important thing is when once the prices are passed on to the end customer, they are irreversible. Normally we do not see anything that the fabric or cloth prices coming down once it is passed on. That is a permanent advantage to the whole industry once it is passed on. As such as you say mathematically it should be possible for us to pass on but practically it takes slightly more time than what we think. Also, we should consider that overall, as a cotton industry we have a total inventory of about 8 to 9 months in the system, starting from fiber till the finished good is sold. Always this inventory is flexible to move in. Sometimes it moves up to 11 months. Sometimes it goes down to 6-7 months, depending on the prices of the product. Accordingly, that is also one of the factors which plays an important role in deciding the final price.

**Kaushal:** The expansion will kick in when, the expansion that you announced in January?

**Dinesh Nolkha:** Expansion, as I mentioned we are expanding in various or most of the segments. This will part of our weaving and finishing capabilities as well as knitting capabilities will start to come up in Q4 of this financial year part of it and spinning capacities will start in Q1 and Q2 of FY24.

**Kaushal:** This is 900 crores will be funded you said partly by internal accruals and partly by term loan which you mentioned earlier.

**Dinesh Nolkha:** Yes, exactly.

**Kaushal:** What do you see the debt number as by the time we start FY24?

**Dinesh Nolkha:** By the end of FY24 we are expecting that 1:1 debt equity we have seen and we should be having a debt of about Rs.1,200 crores in all inclusive of our all working capital and other.

**Kaushal:** **Rs.**1,200 crores inclusive of working capital?

**Dinesh Nolkha:** Yes.

**Kaushal:** By end of FY24?

**Dinesh Nolkha:** Not FY24, when the project is completed. At the moment in FY22 our total debt is about Rs.688 crores which was Rs.960 crores. This we'll repay and then we'll add some for working capital and other so total will be Rs.1,200 crores around.

**Moderator:** We take the next question from the line of Kirti Jain from Canada HSBC.

**Kirti Jain:** Can you highlight what are the product mix related changes and product mix related improvements which we are bringing in our company in recent times?

**Dinesh Nolkha:** Basically, in product mix since we have also started to manufacture first of all our own woven fabric. All the fashion related items, with the woven fabric the yarns which are related with it are being produced in house. That is actually helped us in improving our product portfolio. There are various kind of products wherein we have a sustainable fiber being used in this. Also, in our blended yarn segment we have been able to use our sustainable recycled fibers, recycled cotton, organic cotton and different kinds of mix of fibers like viscose, modal all those kinds of mix is being used in our product mix. That is one part which is we have started to do on that side. On the product side we have tried to optimize our product portfolio looking into the fabrics which is being sold all over the market. Since we have an insight as a fabric manufacturer ourselves, we can preempt some of these manufacturing of those yarns and that helps us in keeping an edge over other producer.

**Kirti Jain:** What would be our proportion of blended yarn roughly

**Dinesh Nolkha:** At this point of time roughly our blended yarn is about 12% of our total production.

**Kirti Jain:** So, will it increase for even cotton?

**Dinesh Nolkha:** Yes of course with our expansion going up this should go up to more than 20% levels going forward.

**Kirti Jain:** Anything you can highlight about our medium-term business strategy apart from the next CAPEX for 18 months if you can highlight about, medium term capital allocation strategy?

**Dinesh Nolkha:** As you have seen in past we have been continuously investing in the various technologies. So our objective was to create a size in most in any business which we follow. That is one of our most important USP. In export business also when we started, we looked at reaching a level where we can go ahead. What I wanted was that we wanted overall whatever businesses we pursue the reach a leadership position in the maximum number of areas that we operate. So that is our strategy going forward. We'll keep on adding some capacities, reasonable capacities exploring and widening our product portfolio to enhance the growth of the company.

**Moderator:** We take the next question from the line of Prerna Jhunjhunwala from Elara Capital.

**Prerna Jhunjhunwala:** I just wanted to understand the demand scenario from the domestic market as well as international market expected given changes in the raw material prices scenario and how is the profitability changed between those markets?

**Dinesh Nolkha:** As you know the raw cotton prices in India are higher than the international prices. So definitely there is a challenge in terms of passing on the prices internationally. It is easier for us to pass on the prices in the domestic market because the domestic market basically is buying the domestic yarns and which is priced at par with the cotton. That is one part of the question so domestic yarn is definitely at the moment better than the international yarn prices. In terms of how this is changing and how this is going to happen, most of the international buyer the changes in their strategies, changing from China and coming to various countries like India, Indonesia, Sri Lanka, Bangladesh, they have to look for alternative sources of yarns which is available at this point of time since no additional capacities as I also informed in my earlier conference calls, that is not forthcoming in the manner in which they would like it to be. They have to buy from countries like India. But they have slowed down on it because of such a huge or steep increase in yarn prices. This is also one of the reasons why there is a slight slowdown by the increase in the yarn prices. Since the requirement is now tapered off, of course it is getting lifted. There is not a position that the yarn is not getting lifted but it is lower than what it was earlier.

**Prerna Jhunjhunwala:** Just a follow up on this only, China plus One story given that US President is looking forward to rationalize the incremental tariff structure to China. Is the China plus One story is at risk at this point in time?

**Prerna Jhunjhunwala:** Yes, it is. Basically, there is a change in buying pattern of most of the international brands. They have already shifted quite a lot of their capacities to other countries than China. That is the reason why China if you can see is not importing cotton as well as yarns to the tune what they normally do. So practically officially they do not declare any production data or something like this. But we are seeing that they have reduced their production capacities. That is being diverted to other countries.

**Prerna Jhunjhunwala:** Which shifted permanently irrespective of what happens in China in what we are coming to as a long-term conclusion on the international market share?

**Dinesh Nolkha:** Yes, we expect it to be long lasting. Definitely we expect it to be long lasting and the business dynamics has definitely changed. But we have to compete still with countries like Bangladesh, Vietnam, Pakistan, Sri Lanka, and Turkey. We have to compete with these countries. We feel that India as a country is overall competitive in textiles in comparison to most of our peers.

**Prerna Jhunjhunwala:** Second question is on the blended yarn business. You are expanding capacity in the blended yarn category, how is the demand and outlook there is a shift from cotton to blended yarn looking more long lasting and the profitability higher there and how much is the spindleage that you are setting up it will be dedicated to blended yarn?

**Dinesh Nolkha:** First of all we'll be adding about 45,000 spindles out of the total capacity of 1, 55,000 spindles which we are adding... We have at this point of time about 27,000-28000 spindles being dedicated to that part. Practically we'll be adding one and a half times the capacity there. As far as profitability and the demand, as the prices of raw cotton have gone up substantially, the delta between the polyester fiber and the viscose fiber to the cotton has substantially changed. This has prompted the blends to change substantially first of all. So that the costs can be maintained for the customer. This is an important part where the finished goods prices can remain at a reasonable level and customer can get the goods at reasonable level by changing the blends. That has prompted the use of the manmade fibers and most of the products at the lower end is being used with the blended yarn. Now coming to the buildup in the future capacities, we've seen that the polyester fiber as well as the viscose fiber, the properties have improved considerably during last 3-4 years. We have seen that a lot of new finishes, lot of new product development has been done by the fiber supplier trying to reach near cotton. Wherever there is not a compulsion of cotton being used ,people are trying to shift to polyester cotton or modal, cotton or other kind of fiber which is helping the blended yarn industry to grow much better.

**Prerna Jhunjhunwala:** And how the profitability difference between cotton and blended yarn?

**Dinesh Nolkha:** Since the customer is able to, basically our customers are able to buy them at a reasonable price to adjust to their costs. At this point of time, it is better. Of course, if you have talked to me 6 months back cotton was much better.

**Moderator:** We take the next question from the line of Roshan from B&K Security.

**Roshan:** How is the demand situation and export outlook for USA coming out?

**Dinesh Nolkha:** Basically, we have a limited exposure in the US. We export some yarns and some fabrics there which is very nominal and limited. We are doing about 6% to 7% of our total capacity where the demand is good. We are seeing consistent demand coming in since cotton prices internationally is governed by the US Future the prices also have moved up in tandem in the US. We do not foresee any major issues there till now.

**Roshan:** And when the capacity increase on the spindle side do you envisage that the capacity growth could exceed the demand?

**Dinesh Nolkha:** As one of the participants as we have mentioned, not major if you see the total capacity which is being added up in the country to about 2 to 2.5 million spindles every year and we have a capacity in India of both 50 million spindles. Practically we will be adding only about 4% of the capacity. There are also some scrappage of the old spindles which I am not considering at this point of time. The increase in capacity is not very substantial which may affect the demand supply scenario.

**Moderator:** We take the next question from the line of Yash Bajaj from Lucky Investments.

**Yash Bajaj:** I actually missed the part of the CAPEX plan which you have laid out. Can you just repeat that if it's possible?

**Dinesh Nolkha:** Basically, we have announced the capacity expansion after our last earning call. So that is the tune of about Rs.955 crores. This will be funded by Rs.300 crores of internal accruals and Rs.655 crores of debt. The CAPEX cost is about Rs.860 crores and balance is the margin money for working capital. For this we will be adding capacities in our spinning department, in our weaving and finishing department and knitting department. We'll be increasing our spindleage from 3.32 lakh equivalent spindles to about 4.88 lakh equivalent spindles, increasing our capacity from 75,000 metric tons to about 1,10,000 metric tons per annum. Similarly, our knitting capacity as well as our weaving capacity will also be ramped up by about 35% each.

**Yash Bajaj:** I just wanted to know what was our average cotton price for the Q4?

**Dinesh Nolkha:** The Q4 our average cotton price, Maheshwariji can you highlight on this exact number?

**P. Maheshwari:** Q4 average cotton price was 215 per kg.

**Yash Bajaj:** If we compare how the demand is flowing currently in this year and as compared to suppose 2017-18 where is the incremental demand coming from domestically and in export?

**Dinesh Nolkha:** Basically, incremental demand what we are seeing is in domestic market, we are seeing that lot of orders for the garments which was earlier being produced in the countries like China, also to an extent in Sri Lanka are getting now shifted into India. That kind of garments actually needs more yarn, so demand is more at this point of time in the domestic market in comparison to the export market.

**Yash Bajaj:** Going forward considering like the way the cotton prices are increased like you said that you will be increasing your concentration of blended yarn to 20%. Do you see like the end players in the value chain also changing their preferences from cotton to blended yarn?

**Dinesh Nolkha:** There is I think lot of investment in India is coming up in the PLI which is primarily for manmade fiber yarns and blended yarns only which will be using fabric actually, manmade fabric and blended fabrics. They will be using more capacity, more yarns for these purposes, so that should help us. We are seeing that there is a total investment of about Rs. 19,000 crores happening in this segment. That should help us in this segment as well.

**Moderator:** We take the next question from the line of Niraj Mansingka from White Pine Investment Management.

**Niraj Mansingka:** One is on the export market, Mr. Nolkha we had seen lot of slowdown in the export of home furnishing, home textiles from India in the cotton side. Do you see because of the excess inventory pile up? So, have you seen a slowdown in the consumption of cotton yarn from view of customers trying to export home textiles to the US market?

**Dinesh Nolkha:** Actually, if you see our profile, 72% of our yarn is exports and about 28% is domestic market and we have spread it pretty well in the various domestic with our customers. We are not very much dependent on one particular industry or one particular company as such for sale of our product. We are not seeing any major changes. Yes, if there is some lesser demand from some of the companies and we are able to fulfill it by supplying to other company just that. That is a flexibility which we have in our system. However, as you asked, I don't think there is a reduction in the exports from these downstream industries. Their margin is affected but their production they are running at full stream. As I have given to understand till month of April, most of the players in home textiles are running full stream. Of course, margins are impacted because they are not able to increase their prices to their expectations.

**Niraj Mansingka:** The other question is on the capacity CAPEX. Just wanted to know your thoughts that you're seeing a lot of growth in the non-cotton side because of PLI investments. Why not have significantly more addition of the blended yarn new capacity rather than only the cotton side? Just wanted to know your thoughts on that?

**Dinesh Nolkha:** We are seeing a reasonable growth and we are also adding up the capacity. We're already nearly adding 150% of our existing capacity and we are also increasing our capacity in the cotton yarn business since we are trying to widening our product portfolio. We are going to add some most of the yarns which we are not producing. There are many kinds of cotton yarn which we are not yet in production. So those will also be taken up. This we have basically strategically seeing that we are not competing against our own existing production and trying to add capacities in cotton yarn business also wherever it is desired, wherever there is a demand. Looking into that, the capacity for cotton yarn has been considered. For polyester cotton or let's say blended yarn as well; we have also considered various capacities but let this

PLI also fructify, let us also see how the demand moves up. Till now it is good. We are also adding capacity and if required we'll add for the capacities in this segment.

**Niraj Mansingka:** What are the carrying cost of your inventory for cotton in rupees per candy?

**Dinesh Nolkha:** We do not calculate the carrying cost actually. Our working capital is for the whole company and not only for cotton. We also have finished goods, we also have work in process, also have debtors. We're not exactly calculating carrying cost on the.

**Niraj Mansingka:** The reason I was asking is that optically the yarn margins may look depressed on based on the current raw cotton prices. But because entire industry's inventory price is much lower than the current prices; don't you see this current yarn prices to continue for the next two or three quarters but profitability would remain similar to this quarter? Just wanted to know your thoughts on that side?

**Dinesh Nolkha:** Basically, yes, you're right that the cost of our inventory which we are carrying is lesser than the market price which is prevailing. Since there is a consistent increase, there is a one-way traffic. We have seen the cotton prices gone up from Rs. 75,000 to 1 lakh a candy. Definitely whatever you have purchased during last 3-4 months, will have lesser cost only. Definitely that is there with every industry player but we need to pass it on. We kept on passing on the prices which has slowed down. Earlier this was a moving, the yarn prices were moving exactly in tandem. Now this is moving with a lag effect. If you go back in 2018-19-17 there was also a lag effect. Yes, but in a calendar year '21 we saw that as long as the cotton prices increase yarn prices increase. And in some times, yarn prices preceded cotton prices increase as well. So that has resulted in a different kind of margin scenario. Now with this lag effect happening, the profitability will depend on the kind of order book which you have and also the kind of inventory cost which you have. It may vary from a player to player. Also, as such this increase it is being taken by the downstream industry player is going to be very good for the textile industry as a whole. With this kind of prices, we are able to this kind of raw material prices, if we are able to pass it on to the customers then once these are passed on these are irreversible. Yes, the yarn prices may come down, cotton prices may come down slightly or in all these things can happen but overall, the margins of the textile industry will definitely improve.

**Moderator:** We take the next question from the line of Nikhil Agrawal from VT Capital.

**Nikhil Agrawal:** Can you tell me the realization for kgs for the yarn and knitted fabrics and realization for meter for the woven fabrics in Q4 FY22 and Q4 FY21?

**Dinesh Nolkha:** Maheshwari ji can you give the exact numbers please?

**P. Maheshwari:** Yes. In Q4 the average yarn realization was Rs. 400 per kg while this was in Q4 '21, Rs.270 per kg in Q4 '21. In knitted fabric it was Rs.380 per kg during this quarter and in Q4 '21 it was Rs.298 per kg and woven fabric it was Rs.171 per meter during the quarter while it was Rs.133 per meters in Q4 '21.

**Nikhil Agrawal:** Your cotton prices over the last summer they have increased by almost being doubled but your yarn cycle has had not actually doubled. Increased by approximately 50%. Do we see yarn prices increasing further? Like you said that about 5% to 6% on the cost will be actually passed on. Is there space for more?

**Dinesh Nolkha:** At this point of time, it looks like I was talking in terms of the cotton prices which was there at the beginning of this calendar year until now. That is what I'm talking about. The scope will be determined by the downstream industry. If they are able to pass it onto their customers then definitely, we will be able to pass it on to them.

**Nikhil Agrawal:** Any reason why like cotton prices have doubled but your yarn realizations have increased by about 60% only?

**Dinesh Nolkha:** The increase is about (+60%) if you see on a quarterly basis. It is the increase is nearly 60%. Cotton prices are like 55% of our raw cotton is about 55% to 60% of our total cost structure. If it is 100% means it is about 50% only for the sales price. That's all is additional margins and some additional cost which has been passed on.

**Nikhil Agrawal:** Where do you procure your cotton from like what category of cotton and will you be importing cotton going forward as we all know that the custom duty, that the import duty has been cut. So, any will you be importing cotton as well?

**Dinesh Nolkha:** First of all, I would like to bring to all of your notice that there was no import duty in India on cotton for last 10 years from 2011-12 till 2021. In the February ‘21 this duty was imposed for and then it was removed in the April of 2022. As a Spinner we have been importing cotton for last several years in a significant manner. Even when the duty was there, we were already importing cotton under advance license, even that point of time and still we are importing. Yes, the quantity has been substantially increased because we foresee that there is a shortage of cotton in India. We have been importing quantities in substantial manner.

**Nikhil Agrawal:** Any percentage of what percent of cotton we import of your requirement?

**Dinesh Nolkha:** For confidential reasons I would not like to share this particular data.

**Nikhil Agrawal:** Any guidance from a margin outlook and the revenue outlook, both?

**Dinesh Nolkha:** The situation is very fragile at this point of time. As I highlighted in my earlier conversation that the situation is really fragile. We are at this point of time we are seeing that there is a shortage of cotton in India due to which cotton prices is spiking up substantially. Even on a week-to-week basis, this is increasing which is very worrying for all of us because we cannot change prices on a weekly basis with our customers. The margins at this point of time we would not like to comment on the margin side but yes, we are working to see that we maintain or try to see a reasonable margin going forward.

**Nikhil Agrawal:** You had mentioned the number of spindles you have dedicated to blended yarn currently. I missed that number. If you could repeat that?

**Dinesh Nolkha:** It is about 28,000 spindles.

**Moderator:** We take the next question from the line of Abhishek from Kent Ke Private Limited.

**Abhishek:** I would like to understand how the cost of power has impacted the industry?

**Dinesh Nolkha:** Cost of power, basically for us at least this has not impacted at all since last 1-year. It is going to be impacted now once the tariffs is increased by the State Electricity Boards. For us it has remained consistent for last 1-year. In fact, with some renewable power being installed by us, it has come down only for us. However, and we had a coal base power plant which we were using to generate power since we had scrapped that particular plant in last financial year and stopped using the power. So, that has in fact saved us some amount on the power side itself.

**Abhishek:** Was Sri Lanka a major market for you because of the ongoing disturbances in Sri Lanka?

**Dinesh Nolkha:** Not substantially. Yes, we are having exposure in Sri Lanka and just for information that Sri Lankan government as well as their Central Bank has allowed to most of the textile companies who are re-exporting their products to import the various requirements which they have and the working is happening as per schedule.

**Moderator:** We take the next question from the line of Nagesh from NR Family Office.

**Nagesh:** When I go through the P&L what I see is the volume growth has not been aggressive. However, the revenues have been really very aggressive. Just want to understand what could be the volume and the revenue outlook from a 12 to 36 months perspective?

**Dinesh Nolkha:** As we are saying that volume, we are consistently improving. Our spinning capacity is nearly fully utilized so that will continue to be utilized going forward. But any additional capacity that will come up only from FY24, Q1FY24 and Q2FY24 and we are expecting that in 24 months from now we should be running, we should have increased our capacity by nearly 45% on the yarn side which is our major revenue earner. As far as our woven capacity is concerned; that is now running at about 90% which we are trying to further ramp up. We are trying to increase the capacities there which will be fructified during this financial year itself. There also we are adding capacities to the tune of about (+30%). That is again going to play an important, that should be available for us during the next full financial year. Knitting capacity is also running at about 85% capacity levels but this keeps on fluctuating depending on the demand and supply of those kinds of fashion product. This should be the base case for the rest of the year but once we are added up the capacity, we expect another 30% increase their itself also. This is all in the terms of volumes.

**Nagesh:** From a 3-years perspective could there be a CAGR, you could put through the volume as well as the revenue growth?

**Dinesh Nolkha:** CAGR means today in such times where the prices are going out of roof, it is difficult to put a number. We have seen a growth of 65% in the overall last 1-year itself which is contributed by more than 40% by the price hike itself. Where all the prices, how the prices move in that is very important for us going forward to decide the CAGR. But if you see a bunch of 5-years together for last maybe 5 years or even 10 years or 12 years we have grown at a CAGR of about 18%-19%. We wish to continue with that kind of CAGR going forward for, if you want to look at 3-4 years' time.

**Moderator:** We take the next question from the line of Esha Gaur from CCIPL.

**Esha Gaur:** I'm trying to understand that as you were saying that while the garment companies pass on this price increase then it will be irreversible. It will be irreversible for the OEM. That is the branded companies which are ultimately selling to the retail customer but for the garment manufacturer they will have to pass on if the cotton and yarn prices decrease, then the OEMs which are the brands they will ask the garment manufacturers to pass it on to them and they will keep the benefit themselves, the branded company. Then how it comes back to us that how are we saying that once these prices go up then it will be irreversible for us. And secondly if you see the steel industry it's all about demand supply of the steel. They don't worry about the automobile industry that what will happen to them if we increase steel prices. Even if iron ore prices are going up, the steel prices are determined by demand and supply of steel. In that case so basically, I'm trying to understand that this Rs. 20-25 gap that is there in the yarn realization; by when will we be able to pass it on? Whether it will happen this quarter or next quarter, what is in your judgment? When can we pass it on?

**Dinesh Nolkha:** First of all, would like to comment on your steel industry example. Steel industry has many usages apart from automobile industry. They have maybe eight to ten different kinds of usages. Whereas the textile industry has only one usage that is for the cloth which has been worn or maybe for home textiles, it is related with the same itself, use like personal usages. Our usage for cotton is one single that ultimately it goes to the customer which will use it for their own consumption. That is why it is more let's say directly linked with the apparel price. So that is one part. We cannot compare this with steel industry. As you see, as you give example of steel industry, we see that one of the costs or any part or anything increases; we see the prices increased by most of the car companies. Like we have seen in the past so many years that the car prices have gone up by 20%-30% whenever the raw material, whatever they have increased resulted in the increase in finished goods prices. But when it comes down nobody reduces the price. Maybe some discounts plus or minuses but prices actually on the floor does not comes down. Same is the case here because we are seeing an unprecedented increase in the raw cotton prices which is ultimately to be transferred to the customer. What we are seeing is the farmer is getting today much better prices but the in-between players like ginners, spinner as well as weaver, finisher, garmenter and retailer have to sacrifice some part of it if he is not able to pass on the price. Yes, due to demand supply situation a spinner was able to pass on completely the prices barring last 1 or 2 months where there is a change in the scenario, slight change in the scenario. But weaver and finisher and garmenter were not able to pass on the kind of prices which they wanted. So, they are pushing the prices ahead. We have seen two increases of price increases by the retailers, will see one more increase by the retailer. Once that price is passed on then the retailer is quite comfortable to give it back to his garmenter or downstream. Yes, you are very right. When the prices of yarn will come down, he will also look at increasing his margin or retaining his margins to the older level but not like he will take up all the margin which is there because of the reduction in the cost. So, this is a normal phenomenon. You can see there are four pockets with the person, the one is with spinner, one is with weaver or knitter and one is with garmenter. Of course, the money will come in these four pockets only. Maybe it'll ultimately come to textile industry. I'm not saying that the price increase is irreversible on part of a spinner or a weaver but as a whole in the industry and this money will remain with them.

**Esha Gaur:** Also, in the papers it came that in the first week of May the yarn prices have been increased by Rs. 40. This Rs. 20 to Rs. 25 gap that you were talking about is it after that Rs. 40 hike that happened in early May?

**Dinesh Nolkha:** The prices on 30th of April was like when the cotton was about 92,000 or 93,000. At that point of time this increase was happened. Rs. 40 increase is a after 1 month gap. In between we have already increased the prices. I'm not talking about today's prices. I'm not talking that today we need to increase the prices by Rs. 25. Yes, it is going to increase by another 4%-5% going forward. We are seeing the increase happening regularly on a consistent basis.

**Moderator:** We take the next question from the line of Shrikant Sharma from Ishri Consultants Private Limited.

**Shrikant Sharma:** My question is that the garment industry is asking for the export ban of cotton and on 17th May I think they will be having a meeting with Minister of Textile. How do you think the ban will affect specifically your company, Nitin Spinner how it will restructured by a cotton ban if there is a cotton ban on export?

**Dinesh Nolkha:** The ban is for the raw cotton exports which is being contemplated. I think it is too late because already most of the cotton now our cotton prices in India are more than the international prices. And anyway, not much exports is happening. Only exports which was committed earlier with lower prices is happening at this point of time. I don't foresee any impact happening because of this ban or anything else and rather it will be detrimental overall to the sentiment in the global arena that we are inconsistent with our policies. That is one part. Anyway, it is not happening at all. As far as our company is concerned, we do not foresee any impact of this particular issue happening as such. The meeting on 17th of May is for all the stakeholders of the industry not only the garment one, this will be a meeting between the then minister with all the stakeholders including the farmer, the ginners, the traders of the cotton, the multinationals of cotton which are stocking in cotton in India; also, the spinners along with garmenter and also the downstream players in the apparel as well as the home textile industry.

**Moderator:** Thank you. Ladies and gentlemen due to time constraint that was the last question for today. I would now like to hand the conference over to Mr. Awanish Chandra for closing comments. Over to you sir.

**Awanish Chandra:** Congratulation Dinesh sir, Maheshwari ji on continued strong performance. Since we are completely out of time, just one comment. In last 7-8 years we have kind of four times capacity now. Do we foresee the same kind of growth trajectory over next 5-6 years? Next 2-year picture is already you have talked about. What could we expect? We can have the same kind of journey of last 7-8 years in next 4-5 years?

**Dinesh Nolkha:** Awanish ji, if you look at our history, we have been growing at 18%-19% CAGR in revenue terms not in capacity. I would not like to comment on capacity side. And we expect to continue this journey for foreseeable future of next 4-5 years at least. I hope we could multiply the rate at what you mentioned just now. It will be our endeavor to grow at that level definitely, everybody wants to grow. That is something which we all aspire for and hope it fructifies as good for all of us. Also, I would like to thank everyone for joining in the call and thank you Awanish ji and SMIFS Ltd for hosting this call. I hope we have been able to answer most of the questions satisfactorily. However, should you need any further clarification or like to know more about the company, please free to contact our finance team and our Investor Relationship Advisors. Thank you once again taking out time and joining on this call.

**Awanish Chandra:** Thank you very much Dinesh sir and Maheshwari sir for spending your valuable time and providing us this opportunity to host the call. Over to Diksha.

**Moderator:** Thank you. On behalf of SMIFS Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.