Nitin Spinners

Operator: Ladies and gentlemen, good day and welcome to Nitin Spinners Ltd. Q2 FY27 earnings conference call. 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 this conference call, please signal an operator by pressing star, then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Avneesh Chandra from SMIFS Limited. Thank you, and over to you, sir.

Avneesh Chandra – SMIFS Limited: Thank you very much, {? Huda ?}, and thank you very much, everyone, for joining this call. On behalf of SMIFS Limited, I welcome you all to the second-quarter and first-half FY27 earnings conference call of Nitin Spinners Ltd. We are pleased to host the top management of the company. Today, we have with us Mr. Dinesh Nolkha, Chairman and Managing Director of the company, and Mr. P. Maheshwari, Chief Financial Officer of the company. We will start the call with initial commentary on the results, and then we will open the floor for questions and answers. Now, I will hand over the call to Mr. P. Maheshwari, CFO of the company. Over to you, Mr. Maheshwari.

P. Maheshwari – CFO: Thank you, Avneesh. Good evening and a warm welcome to all the participants to this Q2 and H1 FY27 earnings call of Nitin Spinners Ltd. I hope you had a chance to go through the financial results and the investor presentation available on our website and the stock exchanges. I will start with a brief overview of the operational and financial performance for the quarter. After that, our CMD, Mr. Dinesh Nolkha, will give you an overview of the industry and business scenario.

Coming to our Q2 FY27 financial and operational performance, Q2 FY27 has been another strong all-round quarter for the company. Total revenue for the quarter stood at Rs. 985.2 crores as against Rs. 760.1 crores in Q2 FY26, representing growth of 29.6% year-on-year. This is our highest-ever quarterly revenue for the third time in a row, driven by higher yarn realizations, a stable demand scenario, and higher sales volume in the fabric business.

EBITDA for the quarter stood at Rs. 175.5 crores as against Rs. 99.6 crores, representing growth of 76.3% year-on-year, driven by better realizations, optimum capacity utilization, and ongoing cost-saving initiatives. EBITDA margin stood at 17.8% as against 13.1% in Q2 FY26, representing an expansion of 471 basis points, and was sustained at the Q1 FY27 level of 17.78%.

Profit after tax stood at Rs. 88.7 crores as against Rs. 34.8 crores, representing growth of 155% year-on-year. EPS for the quarter stood at Rs. 15.77 per share and cash EPS stood at Rs. 22.57 per share. In terms of the geographical split of revenue, exports contributed about 68% and domestic sales contributed 32% of revenue. In Q2 FY27, spinning capacity utilization was over 98% and woven fabric capacity utilization was about 90% during the quarter.

Now coming to the H1 FY27 financial and operational performance, total revenue stood at Rs. 1,860.20 crores as against Rs. 1,553.4 crores, representing growth of 19.8%. EBITDA stood at Rs. 331 crores as against Rs. 210.8 crores, representing growth of 57%, with EBITDA margin improving by 423 basis points. PAT stood at Rs. 163.9 crores as against Rs. 75.8 crores, representing growth of 116.4%. EPS for the half year was Rs. 29.16 and cash EPS was Rs. 42.65 per share.

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Regarding capex, we are pleased to inform you that partial trials have commenced in all the segments of the expansion projects. Commercial commissioning and production in all the divisions is expected to commence by the end of December 2026 as planned. Regarding renewable project investments, the projects are progressing as per schedule and are expected to become operational by the end of December 2026. This will take our renewable energy capacity from 41 MW to about 95 MW and meet about 50% to 55% of our power needs after the expansion.

That is all from my side. I would now request Mr. Dinesh to share his insights about the industry and business scenario. Thank you, and over to you, Mr. Dinesh.

Dinesh Nolkha – Chairman & Managing Director: Thank you, Mr. Maheshwari. Good evening, everyone. The first half of financial year 2027 has been favorable for the Indian textile industry, particularly for upstream players. Yarn demand stayed healthy, with steady buying from major importing countries as well as domestic players, amidst a stable tariff environment.

Cotton prices remained firm during the quarter. Domestic prices moved up to around Rs. 67,000 to 68,000 per candy, on lower arrivals and concerns that deficient rainfall in some parts of India will lower the '26-'27 crop. International cotton prices also firmed up to about 80 cents per pound. The import duty exemption on cotton improved the availability of raw material and has been extended for nearly half of this year.

Importantly, domestic cotton prices continue to remain more or less at par with international cotton prices. This keeps Indian yarn competitive globally and has helped spinning spreads remain healthy.

Further, various deliberate policy measures will increase the competitiveness of the Indian textile industry over the long term. In particular, the free trade agreements being pursued by India around the world are going to help all of us improve the competitiveness of the textile industry.

In the near term, inflationary conditions across commodities and services and liquidity strain in the downstream channels are factors that need to be closely watched. However, the long-term outlook and the medium- to long-term outlook for the industry remain positive.

Coming to our company's performance, Q2 has been a landmark quarter for the company. We achieved some key milestones together: our highest-ever quarterly revenue, highest-ever quarterly exports, and highest-ever quarterly revenue for our fabric business. EBITDA margin was also sustained at a reasonable level. The factors that have driven this all-round performance are better realizations, optimum asset utilization, a higher share of exports, and other cost-saving initiatives taken by the company over time.

As informed by Mr. Maheshwari, our expansion plans are progressing as per schedule. Once these are commissioned and ramped up, a larger share of our yarn will be consumed in-house and will enable us to sell more value-added products in fabrics as well as in our yarn product portfolio, thereby strengthening our profile further. In addition, the renewable power capacities will help us optimize our costs going forward.

I would like to highlight here that the company is steadily moving up the value chain by enhancing capacities in finished fabric and value-added yarns, and is well positioned to deliver sustainable

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growth in the coming years with an expanding presence in higher-value yarns.

With this, I would like to open the floor for questions and answers. Thank you.

Operator: Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and one on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

The first question is from the line of Jatin Damania from Swan Investments. Please proceed.

Jatin Damania – Swan Investments: Good evening, sir, and congratulations on the good set of numbers. I just wanted to understand, since you indicated that cotton prices in the domestic market have firmed up and are in line with international levels, what were the spreads in Q2, and how do you see the spreads given the new cotton supply coming in?

Dinesh Nolkha – Chairman & Managing Director: In Q2, if you talk about the average count for the industry, it was about Rs. 125 to 130 per kg, and it is also more or less at similar levels at this point in time. It has remained at similar levels at this moment as well.

Jatin Damania – Swan Investments: Sure, sir. I just wanted to understand this because if you look at our performance during the quarter across the line items, we outperformed the industry and the growth was good, but when you look at the EBITDA margin on a sequential basis, it was flat. Since more of the value-added product has come into consideration, I wanted to understand what led to a flat margin and what one-off expenses pertaining to the new capacity hit the P&L.

Management: In this particular quarter, we had some small revenues coming in from our trial production, and all the costs related to that were also debited to the P&L account. The top line was about 21 crores. We have also disclosed that we produced about 41 lakh meters, out of which some of the production was in stock and some was sold for 21 crores, with an EBITDA loss of about 1 crore.

Jatin Damania – Swan Investments: Okay.

Management: If you remove that part, the EBITDA would be around 18.5%.

Jatin Damania – Swan Investments: Okay, so that would be almost around a 100-basis-point improvement. Once this capacity ramps up, on the new capacity, which is fabric, and as we are increasing the yarn capacity through more backward integration, what EBITDA margin or ROCE should one assume for the incremental capacity once it runs at the optimum level in FY28, which is already coming in?

Management: As I have indicated many times, normally for an industry like ours, after this expansion, nearly 28% to 30% of our yarn capacity will be dedicated to woven fabrics and to the fabrics business itself. For the fabrics business, we should be able to operate at a margin of about 16% to 18%, where the operating margin should be in that range under normal circumstances. With some renewable energy power capacity, it may make a difference of about 100 to 150 basis points.

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Therefore, under normal circumstances, even with the cost pressures that we have, we should be able to maintain the margins that we are having at the moment.

Jatin Damania – Swan Investments: Sure, sir. That is all from my side. All the best, and I wish you and your team a Happy Diwali. Thank you.

Management: Thank you.

Operator: Thank you. The next question is from the line of Vishal Prasad from Rajmahal Capital. Please proceed.

Vishal Prasad – Rajmahal Capital: Thank you. There is a fair understanding that the government is going to continue with the import duty exemption on cotton and may permanently remove the duty. I know the discussion is ongoing and the government will decide what to do, but is it fair to assume that this exemption will continue?

Management: Based on whatever information we have and the discussions we have had in the industry, we understand that there is a shortage of agricultural products in our country due to El Niño. The government is very well aware of the fact that there is already a shortage. Even the cotton crop is lower than last year by about 4% to 5%. Consumption is also increasing consistently. Overall, the textile industry is growing by 5% to 6%, so consequently the gap is increasing. To bridge that gap, the government is definitely going to help us by keeping this agricultural product at par with international prices. The government will observe the overall scenario, and if there are no major volatile price variations, this should continue, I feel.

Vishal Prasad – Rajmahal Capital: My second question is that we have not decided yet, but we have mentioned that there is an aspiration to enter garmenting. Is there some thought that we will proceed with this aspiration to enter garments once this capex is completed?

Management: I also indicated in our last conference call that this is a logical area that we should enter. That was the aspiration, but as of date, we have not done anything. As soon as we undertake something like that, we will definitely let you all know about it.

Vishal Prasad – Rajmahal Capital: My last question, Mr. Dinesh, is that we also make fabrics and there are different technologies used for printing. It seems that digital printing is very prominent in Europe, and China is also moving in that direction. Do you see our industry, as well as our company, moving in that direction?

Management: Of course, that is always possible. We have rotary printing, and we are quite efficient in providing immediate deliveries. Digital printing is used to provide immediate, just-in-time deliveries, whereas we have a lot of immediate requirements. We are quite efficient in that, and we are even able to deliver printed goods to our customers within 10 to 12 days. At the moment, we do not feel any need for digital printing, but going forward, if the need arises, we are definitely open to it. It is not a very large investment for us.

Vishal Prasad – Rajmahal Capital: Thank you.

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Operator: Thank you. A reminder to all participants: anyone who wishes to ask a question may press star and one on their touchtone telephone.

The next question is from the line of Harsh Mittal from Emkay Global. Please proceed.

Harsh Mittal – Emkay Global: Hi. Am I audible?

Management: Yes.

Operator: Yes, sir.

Harsh Mittal – Emkay Global: Good evening, team. Thank you for the opportunity. Firstly, congratulations on a strong set of results. My first question is a continuation of the question from the previous participant. You mentioned that any new capex into garments or any other segment will be announced subsequently, but is there any timeline that you can attach to it, or by when can we expect it at the latest? For the new capex, which will basically contribute to revenues from FY29, are there any guidelines or timelines? This is my first question.

Management: What we are looking at first is that, since this is a major capex that we are undertaking, our top priority is to stabilize the production and revenues for this particular stream, which is quite substantial. We are then looking at various parts of our business where we can increase our revenues and balance the overall situation. By FY29, we aspire to reach anywhere between 4,800 to 5,000 crores with our existing assets and by balancing some of them. Therefore, the next capex will be for modernization and balancing of our equipment, so as to optimize operations and reach this target.

Harsh Mittal – Emkay Global: Understood, sir. My second question is on fabric realization growth this quarter, which seems to have fallen by approximately 8%. Do you have any view on these numbers? Can we expect a higher realization in Q3? Thank you.

Management: The realization in this quarter has improved in comparison to the previous period; it has not fallen. If you compare this with yarn, then yes, it is lower, but fabrics normally have a tendency to pass on cost increases later. Our fabric realization has increased year-on-year by about 6%, while yarn realizations have increased year-on-year by about 12.5% to 13%. In that context, it has fallen behind, but fabric normally takes more time to pass on the overall costs.

Harsh Mittal – Emkay Global: Understood, sir. Thank you. These were my questions, and I will fall back in the queue. Thank you.

Operator: Thank you. The next question is from the line of Prabhat Yadav from Navneet Education. Please proceed.

Prabhat Yadav – Navneet Education: Good evening, and thank you for this opportunity. I wanted to understand the yarn business. If I look at the top seven or eight players in the country today, including your company, I realize that the investments taking place specifically in yarn or specialized yarn are significantly lower than the capacity additions taking place in ready-made garments or fabrics. However, yarn is ultimately the basic requirement across these developments at an industry level. Is the current situation one of underinvestment in spinning, given that you

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operate across all segments of the business? I wanted to get your view on that.

My follow-up question is about the real benefits of the UK and EU FTAs that are expected to benefit India. How soon would you start to see any real gains accruing from them?

Management: Let me answer your second question first, because that will lead us to the first question. The UK and EU FTAs are going to benefit garments and ready-made garments the most, as well as made-ups in home textiles. These are the segments that will be the real beneficiaries. Of course, under the EU FTA, a lot of yarn and fabrics also go there, so those segments will benefit as well.

To derive a real benefit from these agreements, we need to increase our garmenting capacities, as well as our fabric capacities, to that extent. That will translate into a major overall gain and market share. We are increasing our capacities, and the capacity increase in garmenting is quite substantial. Gradually, the industry is moving in that direction.

However, as you said, there is no major capacity addition in yarn. The major reason is that there is already underutilization of spinning capacities. We are utilizing only nearly 80% of our spinning capacity. About 17% to 18% of the capacity is already closed; some of it is permanently closed, and some of it may come up again. We also have an export share of about 20%, which we are supplying to various other countries.

Once garments come into the business, we may take the share of some other countries, and that will transfer from exports to the domestic market. Overall capacity still remains adequate. We feel that the industry does not need more capacity for at least 1 or 2 years, until the benefits of these FTAs are actually realized.

Prabhat Yadav – Navneet Education: That is fair, sir. Thank you, and I appreciate it. Thank you.

Management: Thank you.

Operator: Thank you. The next question is from the line of Varun Dinesh from {? Smiths Limited PMS ?}. Please proceed.

Varun Dinesh – {? Smiths Limited PMS ?}: Good evening. Am I audible?

Operator: Yes, sir.

Management: Yes, you are.

Varun Dinesh – {? Smiths Limited PMS ?}: First of all, congratulations on a very good set of numbers. I would like to ask a few questions. One is on the margin front. We have reached around 17.8% EBITDA margin this quarter, and we are guided towards 20%, right? There has been a change in the mix on the overall product side. I would like to know how far you are going to go toward 20%, how you will achieve it, and in which quarter, probably.

Management: First of all, Mr. Varun, I would like to highlight that we have not guided for 20%. We have said that the range is 16% to 20%. We are in the middle of the range. We are already at a reasonable margin level, given the kind of product mix we have. We have a balance of fabric as well

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as yarns. In this scenario, I think this is quite an optimal margin at which we are operating. Our first objective is to maintain and improve it. Since we are adding more renewable energy power capacity, that should help us with some cost-saving initiatives and should also help us improve the margin. However, our first objective at this point is to sustain these levels.

Varun Dinesh – {? Smiths Limited PMS ?}: My second question is about the fact that exports have been a focus area and have grown by over 40% year-on-year. Which geographies exactly are driving this export growth?

Management: It is spread across all geographies. We are practically operating in all geographies, and it is not that one particular geography has improved substantially. It is a general improvement. There has been a price increase. We have seen that this 40% increase is partly due to depreciation in the dollar. Secondly, the increase in yarn value realizations itself has contributed about 20% to 25%. In addition, there has been some capacity diversion from the domestic markets toward export markets. All these factors together have resulted in a 40% improvement in realizations, but this is not going to have any major impact on profitability, at least because of this factor.

Varun Dinesh – {? Smiths Limited PMS ?}: In the last quarter, we heard that there would be some spillover into the next quarter because of the dispatches that were pending. How much of that spillover has come into this quarter?

Management: Not much. I had informed you that we were not able to dispatch some quantity at the end of the quarter. That was to the extent of about 35 to 40 crores, not more than that. This is routine. With overall revenue of more than 300 crores every month, sometimes a shipment does not happen. Because of that, a variation of 25 to 30 crores, plus or minus, can happen at the end of any month or quarter.

Varun Dinesh – {? Smiths Limited PMS ?}: Was there any inventory gain this quarter?

Management: In terms of inventory gain, what do you mean? [trails off]

Varun Dinesh – {? Smiths Limited PMS ?}: In terms of the price, perhaps you purchased inventory in the last quarter at a lower price. [trails off]

Management: No, not much. In fact, the cost of our raw material inventory is much higher than in the last quarter.

Varun Dinesh – {? Smiths Limited PMS ?}: The last question was with respect to the debt that you have taken for this capex. What is the repayment schedule, and what peak debt have you assumed?

Management: First of all, our peak debt will be as follows. Our total term debt will peak in March at about 1,440 crores, I think. Working capital, which is about 400 crores at this point, may reach about 500 crores or more during that period. Therefore, total debt could be about 1,950 crores at the end of March '26. Repayments will be about 180 to 200 crores every year for the next 6 to 7 years.

Varun Dinesh – {? Smiths Limited PMS ?}: I think that would be all from my end. I will join the queue again for more questions. Thank you.

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Management: Thank you.

Operator: Thank you. A reminder to all participants: anyone who wishes to ask a question may press star and one on their touchtone telephone. The next question is from the line of Reena Kashyap, an individual investor. Please proceed.

Reena Kashyap – Individual Investor: Hello, am I audible?

Operator: Yes, ma'am.

Reena Kashyap – Individual Investor: Thank you. Firstly, congratulations on a good quarter. I had a few questions on the margin front. One is regarding the new woven fabric capacities that we are looking to add, whether the trials are underway, and what is happening. When do we see these capacities being fully commercialized, and how do we see the impact on margins? At what point do we see EBITDA margins normalizing after that? This is my first question.

My second question is also on the margin front. Do we see any potential volatility in input costs or freight costs in the near term? EBITDA is at 17.8% currently, although the guidance is 16% to 20%. Do we see ourselves reaching the higher end of 20%, or do we see ourselves remaining in the middle of the guidance range because of any volatility in input costs or freight costs in the near term?

Management: First of all, the new capex that we are undertaking is progressing, and trial runs have already started. We should be able to roll out commercial production by the end of this quarter. Different segments are operating at different levels, so as they are completed, they will be commercialized.

However, regarding capacity utilization, we expect that we should be able to reach the normal 95% or higher level in spinning capacity by the end of March this year. Our woven greige fabric capacity should also reach full capacity utilization at a similar point in time. However, finished fabric capacity will take slightly longer because of marketing constraints and the development of customers and products. We may reach that level in the next 8 to 9 months, around August or September next year. This is the schedule. Renewable energy power will ramp up immediately, so we should be in a full-capacity position by January this year.

Coming to your margin question regarding the accretion and the impact, there are cost pressures. We are seeing input costs increase, including dyes, chemicals, coal, and packaging costs. Freight costs are increasing as well, and we are also seeing an increase in sea freight. This is definitely going to have an impact on our margins, and we have to see how we will be able to pass it on to our customers.

However, we have certain scale-related cost initiatives because we are increasing our scale, and we also have renewable energy power coming in, which will reduce our power cost. This should be sufficient to cushion these increases. We expect that we should be able to retain our margins at the levels we have. As far as the upper level is concerned, it is always the endeavor of the company to reach the top level of margins, but I think we are still far from that.

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Reena Kashyap – Individual Investor: Just a few follow-ups on your answers. First, regarding utilization, you said 95%. How do we see it gradually increasing? Do we see it starting at 65% to 70% and then moving to 95%? That is the first follow-up.

Second, regarding the commercial launch from Q3, as you mentioned, what impact do we see on the top line from this? Third, regarding the cost initiatives, could you elaborate a little more on the efforts you are undertaking?

Management: First of all, it is always a slow and steady process. You start at 50% and then reach 90% to 95%. It is a gradual, step-by-step increase in productivity as well as efficiency. That is a step-by-step process. The product also has to be right, and that takes some time. That is one part.

The second question was regarding what? Could you repeat the second question?

Reena Kashyap – Individual Investor: My second question was about the woven fabric trials that are going commercial from Q3. What impact or addition do we see in revenue, and what are the cost initiatives that you could elaborate on in terms of the efforts you are undertaking?

Management: The total revenue expected from this new project is about 1,000 crores. We expect to increase our overall revenue by another 1,000 crores.

Reena Kashyap – Individual Investor: Over what time period?

Management: This is for 1 year. Annually, this should be 1,000 crores. For the next financial year, we expect to add 1,000 crores to our top line from this new capacity expansion.

Reena Kashyap – Individual Investor: And in FY25, how much would this be?

Management: It should be around 300 to 350 crores all put together.

Reena Kashyap – Individual Investor: Understood.

Management: Regarding the cost initiatives, there are many minor cost initiatives that keep taking place through automation and the use of AI in our production facilities. We also do a lot of work on energy saving. Alternative fuels are also being developed, so we can move toward those fuels. These kinds of initiatives keep taking place, in addition to the renewable energy power that we are going to add. All these initiatives together normally help reduce costs.

Reena Kashyap – Individual Investor: Just one last question. I want to understand your outlook on domestic and international cotton prices for the coming season. How much inventory are you currently holding, and how are we positioned in terms of protecting our spreads from price disparities? If you could give me your view on this, that would be very helpful.

Management: First of all, regarding international cotton prices, we are seeing that there is a shortage of cotton internationally as well. This year, we have a smaller crop, so prices have moved up from a low of 60 to 65 cents to around 80 cents on the New York futures. We expect that prices should remain in the range of 75 to 90 cents, with an average of about 84 to 85 cents going forward, as consumption is increasing worldwide and the cotton crop is smaller.

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The same situation will be present in India. We have a smaller cotton crop this year. However, with the import facility and the removal of import restrictions, with no duty on cotton, I think we should be able to maintain parity. Going forward, the important thing for all of us is that we should not be outpaced by the increase in Indian cotton prices because of the shortages. We should remain at par. As long as we remain at par with or below international prices, margins are normally sustained. This is what we have historically seen, unless there are major geopolitical tensions or other developments taking place around the world.

Reena Kashyap – Individual Investor: Understood. Thank you so much, and all the best.

Management: Thank you.

Operator: Thank you. The next question is from the line of Lakshmi Narayanan from Sama Wealth. Please proceed.

Lakshmi Narayanan – Sama Wealth: Thank you for the opportunity, and congratulations on a great set of numbers. I wanted to know whether we are receiving any interest subsidy on the capex that we are undertaking.

Management: Yes, we are receiving an interest subsidy on the capex that we are undertaking going forward. For the loans that we have, we should be able to receive an interest subsidy of about 2.5% on average.

Lakshmi Narayanan – Sama Wealth: What would be our blended cost of debt, if we could quantify it?

Management: Our total blended cost of debt will be in the range of about 6.5% to 6.75%.

Lakshmi Narayanan – Sama Wealth: Thank you, sir.

Management: Thank you.

Operator: Thank you. The next question is from the line of Neeraj from White Pine Investment. Please proceed.

Neeraj – White Pine Investment: I wanted to know your view on the fabric and knitting side, because the utilization [cut off]

Operator: Mr. Neeraj, can you please be a little louder?

Neeraj – White Pine Investment: I want to know your view on the utilization of knitting fabric. We are not seeing utilization increase on that side, so I wanted to know your thoughts.

Management: Since we have only greige fabric knitting, the value addition in the knitting segment is very low. When yarn prices are on an increasing trend, capacity and fabric prices normally lag the increase in prices. In that process, knitting utilization goes down.

This was also affected by the volatility in the US tariff. Since many of our customers in the knitting segment are from that part of the world, they were very concerned about the 100% duty that was

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imposed and passed by the US Senate. There was a sudden reaction, with new orders from that side being stopped. This definitely impacted our utilization. However, as far as profitability is concerned, it does not have any major impact on our profitability.

Neeraj – White Pine Investment: Is there any possibility of increasing the value addition [cut off]

Management: As soon as yarn prices stabilize, and now that there is clarity that a trade deal may also happen with the US and that no additional tariff is expected, we expect utilization to improve from here.

Neeraj – White Pine Investment: I wanted to explore this further. Even though it is low value addition, the ability to run utilization would be better for the return on investment in the knitting fabric. Do you have any thoughts on whether you are rationing your margins and therefore keeping utilization low, or whether you think utilization will increase to a reasonably large level over the next year? This capacity has been lagging significantly for almost 1.5 years.

Dinesh Nolkha – Chairman & Managing Director: From an investment point of view, it is a very small investment relative to the size of our company. The knitting investment is less than 2% of our total investment, and most of it is fully depreciated because we have not added major capacity in this segment in the last 4 to 5 years.

Since it is one of the segments of our company, it is always our endeavor to improve the performance of this particular segment. However, if overall profitability is affected and we are able to sell yarn at better margins than fabric, then it is always our tendency to avoid utilization rather than incur a loss.

Dinesh Nolkha – Chairman & Managing Director: That is the position on that side. So—

Neeraj – White Pine Investment: Yes, understood.

Dinesh Nolkha – Chairman & Managing Director: The prices were increasing, so in the increasing trend, fabric prices were lagging, and that was one of the major causes of concern regarding revenues in this particular segment.

Neeraj – White Pine Investment: Understood. Thank you.

Operator: Thank you. The next question is from the line of Manav from Jain Investment. Please proceed.

Manav – Jain Investment: Hello, sir. Thank you for the opportunity. Can you guide us on the demand scenario from Bangladesh? Are we experiencing the same level of demand from Bangladesh as we did in the last 2 quarters? Are we facing any freight issues?

Dinesh Nolkha – Chairman & Managing Director: In terms of demand, it is more or less stable in Bangladesh. There are no major freight issues in this part of the world. We do not see any major freight issues developing because the major freight issues are on the West Asia side.

Manav – Jain Investment: Understood, sir. That was helpful.

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Operator: Thank you. A reminder to all participants: anyone who wishes to ask a question may press star and one on their touch-tone telephone. The next question is from the line of Divyanshu Gupta, an individual investor. Please go ahead.

Divyanshu Gupta – Individual Investor: Good evening. Thank you for the opportunity. First of all, congratulations on a strong quarter. While going through the balance sheet, I see that receivables have risen by nearly 40% since March. Is this mainly due to higher export sales, have we extended the credit terms, or is there any material balance that is overdue? Could you please shed some light on this?

Dinesh Nolkha – Chairman & Managing Director: First of all, the increase is primarily due to an increase in export receivables. We have not extended any additional credit. Rather, we have not negotiated part of the documents with the banks, which would have resulted in realization of those documents. That is one part. Most of the increase in receivables is in exports only. There are no major overdue amounts or other receivables. Vasu, can you provide some details on this, please?

Vasu: Yes, sir. This is on account of an increase in exports and lower utilization of bill-discounting limits.

Divyanshu Gupta – Individual Investor: Thank you.

Operator: Thank you. The next question is from the line of Chirag Shah from White Pine Investment. Please proceed.

Chirag Shah – White Pine Investment: Once we are done with the fabric capex that we are undertaking now, what would the next leg of capex look like? Would it be a further addition on the fabric side, or would it be something beyond fabric?

Dinesh Nolkha – Chairman & Managing Director: At this point, we have not decided on this. First of all, our immediate objective is to ramp up the capacities and utilize them in a profitable manner. That is our first goal at this point. Secondly, as I highlighted in response to another question, we are looking to balance our other, older lines and modernize them as well, so that we can take revenues to the next level of about 4,800 to 5,000 crores going forward.

For the next 1 year, we will be focused in that direction. As far as expansion or capacity is concerned, we are reviewing various options, and we will come back to you once we have made up our mind on that subject.

Chirag Shah – White Pine Investment: I was not focused on the timelines, but on how we think about it internally. I understand that your focus will be utilization, but is fabric the area of focus for the next 2 or 3 years whenever you decide, or is there something else that you are internally planning to move up the value curve?

Dinesh Nolkha – Chairman & Managing Director: We highlighted in our last call that we can also look at the value curve. If it is profitable, we can definitely consider that as well. We will evaluate this as we utilize our assets and interact with various markets, customers, and brands. Accordingly, we may form a strategy regarding which direction to pursue.

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There is a lot of scope already in this business to grow this segment as well. We will evaluate where it is better for us to deploy capital and will take up the appropriate opportunity accordingly.

Chirag Shah – White Pine Investment: Thank you.

Operator: Thank you. The next question is from the line of Harsh Mittal from Emkay Global. Please proceed.

Harsh Mittal – Emkay Global: Thank you for the follow-up. I have 2 questions. What would be the depreciation expense this year, and what would be the capex cash outflow for FY28?

Dinesh Nolkha – Chairman & Managing Director: First of all, depreciation is currently Rs. 37.5 crores to Rs. 38 crores every quarter. With the new capacity expansion coming in, this should increase to about Rs. 53 crores to Rs. 54 crores every quarter. Going forward, next year it should be in the range of about Rs. 200 crores, or slightly above Rs. 200 crores. That is the depreciation. The second question was regarding your—

Harsh Mittal – Emkay Global: The capex cash [overlap] for FY28.

Dinesh Nolkha – Chairman & Managing Director: In the next year, since we are planning to modernize and rebalance our capacities, we expect to spend in the range of about 80 crores to 100 crores on modernization and related activities.

Harsh Mittal – Emkay Global: Understood, sir. Thank you very much, and Happy Diwali to the team.

Dinesh Nolkha – Chairman & Managing Director: Thank you. Happy Diwali.

Operator: Thank you. The next question is from the line of Saloni, an individual investor. Please proceed.

Saloni – Individual Investor: Thank you for the opportunity. I wanted to understand your current order book with regard to the spinning and fabric segments, given the export and domestic demand outlook.

Dinesh Nolkha – Chairman & Managing Director: I am sorry, ma'am, but we do not share this information on the call, so I will not be able to provide it.

Saloni – Individual Investor: Thank you.

Dinesh Nolkha – Chairman & Managing Director: Thank you.

Operator: Thank you. A reminder to all participants: anyone who wishes to ask a question may press star and one on their touch-tone telephone. The next question is from the line of Uday Kumar from UK Capital. Please go ahead.

Uday Kumar – UK Capital: Hi, everyone. Am I audible?

Operator: Yes, please go ahead.

Dinesh Nolkha – Chairman & Managing Director: [overlap] Yes, please.

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Uday Kumar – UK Capital: With Bangladesh recently securing a 3-year extension on its LDC status and retaining preferential access to key export markets, how do you see this affecting the competitiveness of Indian players currently?

Dinesh Nolkha – Chairman & Managing Director: I think there is no change in status. Bangladesh was already an LDC, and given the turbulence taking place around the world and in Bangladesh, it was already expected that it might extend these LDC benefits by 1 or 2 years. It has now been extended for 3 years.

Fortunately for us, we will have all our FTAs in place and will be at par with Bangladesh, and in no way less competitive than it, going forward.

Uday Kumar – UK Capital: One last question on the EBITDA margin. We have started trial production of 4.1 million meters of greige fabric. Can you share the adjusted EBITDA margin for the current quarter after adjusting for the greige fabric production?

Dinesh Nolkha – Chairman & Managing Director: I have already shared this in response to one of the questions. This revenue consists of about 21 crores of sales in this particular quarter, with an EBITDA loss of 1 crore. Therefore, effectively, the EBITDA margin is 18.5%.

Uday Kumar – UK Capital: Again on the Bangladesh front, we are seeing labor issues and shutdowns related to wage increases for these workers. Is there any impact on our clients, and what is your outlook on this?

Dinesh Nolkha – Chairman & Managing Director: This agitation happened only a couple of days ago, so it would be too early for me to comment on it. Normally, this kind of agitation happens in Bangladesh every 1 or 2 years to increase wages, and it settles down in about a week or so. The increase in wages has been overdue for the last 6 months, so I hope there will be no major impact.

Uday Kumar – UK Capital: Thank you, sir.

Operator: Thank you. I now hand the conference over to Mr. Avneesh Chandra.

Operator: [pause]

Operator: Mr. Avneesh?

Avneesh Chandra – SMIFS Limited: Mr. Dinesh, before taking your closing comments, just a few points. You mentioned that the adjusted margin was 18.5%, and that we have room for margin expansion through renewable energy and a higher-value product mix because of woven fabrics. If something affects the 18.5% margin, will this still be offset by new margin expansion, and can we comfortably say that our 18% to 18.5% margin will continue for the foreseeable future?

Dinesh Nolkha – Chairman & Managing Director: It is our endeavor to remain in this bracket. With the increasing renewable energy profile, the cost initiatives we have taken, and the value addition that we are going to undertake, we should remain at these margin levels. We should remain in this bracket.

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However, market conditions and any major volatility or geopolitical developments may affect us. As I have highlighted, there are also cost pressures, especially on the input side for dyes, chemicals, and other items, and that is also going to have an impact. In addition, we need to see that increases in fabric prices are passed on gradually. That also takes time. Both these factors should be considered when extrapolating our margins.

Avneesh Chandra – SMIFS Limited: We are starting our new capacity from Q3 onward and will reach optimum utilization somewhere in FY28. Is there any new capex that we could undertake during FY28 that could support new growth in FY29? I am not asking for any numbers, but is there anything you can indicate?

Dinesh Nolkha – Chairman & Managing Director: As I have highlighted, we are going to undertake modernization and balancing activities through which we can increase our capabilities on the production side. We aspire to reach a top line of 4,800 to 5,000 crores in FY29. We will move in that direction, and for that purpose, we may undertake capex of 80 to 100 crores in the next financial year.

We also have the opportunity to increase our renewable energy capacity. Once all our renewable energy power is settled, we may further increase our renewable energy capability and take it to about 65% of our total requirement. That is also something we will look at in the next financial years.

Avneesh Chandra – SMIFS Limited: Can the modernization project increase our capacity by 5% to 10%? Should we assume that?

Dinesh Nolkha – Chairman & Managing Director: Overall, it may be in the range of approximately 5%, plus or minus. It should, and some value addition can also take place.

Avneesh Chandra – SMIFS Limited: Thank you very much, Mr. Dinesh, and the management team, for giving us the opportunity to host this call. Any closing comments?

Dinesh Nolkha – Chairman & Managing Director: I would first like to thank all of you for taking the time to join this call. I also thank the SMIFS team and Avneesh for hosting the call. I hope we have been able to address all your queries. If anything remains, you can get in touch with our finance team or our Investor Relations team.

Thank you once again, and I wish you and your families a very Happy Diwali and a prosperous year ahead. See you at our next earnings conference call. Thank you.

Operator: Thank you very much. On behalf of SMIFS Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines. Thank you.

Dinesh Nolkha – Chairman & Managing Director: Thank you.

Note: {? ... ?} indicates a figure or name where audio clarity was insufficient for confident transcription. Verify against the source audio or the company's published filings.

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