



“Nitin Spinners Limited Q1 FY2022 Earnings Conference Call”

August 04, 2021

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MANAGEMENT:

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NITIN SPINNERS LIMITED**



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Moderator: Ladies and gentlemen good day and welcome to Q1 FY2022 post results conference call of Nitin Spinners 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 from SMIFS Limited. Thank you and over to you Sir!

Awanish Chandra: Thank you Margaret. Good afternoon everyone on behalf of SMIFS Limited. I welcome you all to Q1 FY2022 conference call of Nitin Spinners Limited. We are pleased to host the senior management of the company, today we have with us Mr. Dinesh Nolkha, Managing Director of the company and Mr. P Maheshwari, Chief Financial Officer of the company. We will start the call with initial commentary on results and then we will open the floor for Q&A. Now I hand over the call to Mr. Nolkha, Managing Director. Over to you Dinesh Sir!

Dinesh Nolkha: Thank you. Good afternoon to everyone and thank you for joining us on Q1 FY2022 earning call of our company. I hope you and your dear ones are keeping well and safe in this unprecedented time. I hope you had a chance to look at our results and presentation uploaded on the stock exchanges and company’s website. Along with me on call I have Mr. P. Maheshwari, Chief Financial Officer.

Let me first give you a brief about the industry and company and then Mr. Maheswari will take you through the financial highlights of the quarter gone by. During this quarter with the emergence of second wave of pandemic entire country witnessed disruption. The second wave has impacted severely the retail segment of the textile industry. Domestic activities were impacted due to lockdown imposed by the local government at multiple locations however, the industrial activities were allowed as such companies which were directly or indirectly export focused could operate at normal level. During the quarter cotton prices initially went down and then started increasing steeply due to increased global usage of cotton and then in India exports of cotton as well. Overall, the demand of cotton yarn remained good in export market which enabled us to utilize the spinning capacity in full capacity and achieve better profitability. Nitin Spinners as you are aware the leading manufacturer of cotton yarn, blended yarn, knitted fabrics and woven finished fabric. The company's leadership in cotton and blended yarn fabrics manufacturing is driven by its continuous investments in latest technologies resulting in delivering standard quality products and due to our strategic focus on product mix and large presence in international markets across 50 countries, we have delivered a strong export performance in the first quarter of this year. Despite traveling restrictions due to pandemic and lockdowns the customers have posed confidence on us and we could achieve export turnover of 76% of our revenue, which was about 50% in the last year FY2021. During the quarter we have achieved higher productivity and efficient utilization of our spinning and knitting operations however the utilization of our woven fabric division was lower as domestic demand was much



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lower due to lockdown and the division is mainly catering to domestic markets however the same was offset by higher sales of yarn and more focus on increase of sustainable fibers like organic cotton, recycled cotton, other fibers like lycra blended yarn and higher finer counts with very fine varieties of extra long staple cotton. We have achieved highest level revenue and profits during the quarter and we may mention here that while analyzing the performance of the company we would request you to look at quarter-on-quarter figure as figures of last June 2020 quarter are uncomparable since the operations during that quarter were closed for about 35 days. Now I would request Mr Maheshwari to give the financial highlights for the quarter ended June 30, 2021.

P. Maheshwari:

Thank you Sir and good afternoon everyone and thank you for joining this earning call. I would like to touch upon the financial highlights from the quarter ended June 30, 2021. The revenues for Q1 FY2022 increased to Rs.554 Crores from Rs.512 Crores in Q4 FY2021 that is an increase of 8% quarter-on-quarter and year-on-year revenues were up by 153% from Rs.219 Crores in June 2020 to Rs.550 Crores in June 2021. The gross margins for this quarter stood at 48.4% as compared to 45.1% in Q4 2021, gross margins have increased due to better utilization and focus on specialty products. EBITDA for the quarter stood at Rs.129 Crores as compared to Rs.104 Crores in Q4 FY2021 and Rs.24 Crores in Q1 FY2021 that is an increase of 23% on quarter-on-quarter basis, profit before tax for the quarter is Rs.93 Crores against Rs.66 Crores in Q4 2021 that is an increase of 40% quarter-on-quarter. Similarly profit after tax is Rs.60 Crores against Rs.42.86 Crores in Q4 FY2021 that is an increase of 40%. Cash earning per share for the quarter is Rs.14.63 against last quarter 11.55 and earning per share increased from Rs.7.62 in Q4 FY2021 to Rs.10.67 during the quarter.

On the operation front the spinning capacity was fully utilized during the quarter with production of 17,790 metric tonnes, knitted fabric capacity was utilized at 90% with production of 2,000 metric tonnes and weaving fabric division production was 6.17 million meters with capacity utilization of 82% whereas finished fabric capacity was utilized to the extent of 61% with production of 4.57 million meter. That is all from my side. Now I open the floor for question and answers.

Moderator:

Thank you very much. We will now begin the question and answer session. The first question is from the line of Gunjan Kabra, an Individual Investor. Please go ahead.

Gunjan Kabra:

Sir thank you for the opportunity and congratulations for the good set of results so I have couple of questions so first is so how are basically cotton prices governed in India like assuming India has abundant supply and I believe some part of the cotton is only import dependent so is it our demand and supply mismatch that governs the price or is it done globally so just wanted to understand if we are the price takers or we have our own kind of a price mechanism?

Dinesh Nolkha:

First of all to understand this particular thing here we have to look at the total output of the country and then what kind of parity it is which is also interrupted by the government of India

minimum support size operation. So here in India first of all the floor price is decided normally by the minimum support price that government declares every year around May or June for the next cotton crop so that we are able to grow more and more cottons, objective of the government is to remunerate the farmer's better so that is one of the base prices where it operates when the prices go down, Let us say which happened in early part of 2020 during the pandemic time so government interrupted and bought a lot of cotton so that is one part because the base price is justified so normally this price is determined on the basis of the cost of the farmers and it has nothing to do with market so this is one basic parameter which we need to look at and then comes the global prices. Normally we have Cotton outlook index which comprises of the various kinds of cotton all around the world. Also, some people look at New York futures so basically the Indian cotton prices normally are at a discount to Global prices because of the quality of cotton which we are producing so once if our prices are too low then there is always a tendency to export the cotton out of the country because we have a free trade, there is no restriction for the export of the cotton so normally the cotton is exported. so whenever, like this year our prices initially were quite low so we had exported nearly 20% of our crop out of India. Normally our supply economic dynamics at this point of time is that we require about 80% of the cotton which is sufficient for our production. So out of production of about about 36 million bales, in India the consumption is about 331 million bales, so nearly 5 million bales are normally exported out so sometimes when the prices are not to that level in the international market then this remains in India as a buffer. In the year 2019 to 2020 our prices were on a higher side so we could not export and that is why our opening stock was very high. This year prices went down substantially due to pandemic and then slowly it came back to the global level so the pricing mechanism is intermingled with the international pricing so it is not fully dependent on India.

Gunjan Kabra: Okay Sir also I had a question regarding the sustainability of operating margins which stood at around 20% to 23% this time since if you can guide what factors can help us to keep our margins at this level going forward or what factors can lead to a decrease in margins and are these sustainable going forward?

Dinesh Nolkha: First of all margins are a result of the supply and demand equilibrium and during this pandemic time both supply as well as demand both has been disrupted. On top of it we had a huge disruption on side of the logistics as well so to do a crystal gazing that what kind of margins it will remain going forward in long term is a bit I would say like a sort of forecasting in an area where you are not an expert. Basically we need to look at various aspects of the supply and demand which is near to us or maybe in nearby so as we can see the supply side has been disrupted by a lot of manufacturing stoppages. Lot of industry experts must have explained and I have also explained in last concall that there is a lot of manufacturing disruption happening so the supply has been reduced and that if these are not coming back at this margin level we should not expect them to come back in the near future and further this can be increased by adding more capacity, which we are not seeing in a large tune in the coming at least 6 to 12 months so that is one part. Second part is the demand part which is actually, if you see, this has been disrupted due to lockdown and various products in the textiles, retail is not open as I said in my opening



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remarks that domestic retail has stopped also the retail in various parts of the world has stopped .The consumption levels are slightly below the normal requirement but in the international market, they are nearly coming back now. Recently about two to three days back a report of the advisory board is coming which has shown cotton consumption has increased by 12% from the last year. Basically I was explaining that the nearby supply and demand side we need to look at on a regular basis, demand is very robust and it is expected to go better only in coming time in the domestic market which has been deeply affected by the demand side. So we expect that this kind of margins can remain for near-term maybe one or two quarters going forward .However as you said that how we are planning to see that we have this kind of margin remaining with us, a lot of focus is now on the sustainable fibers on our side. Also in our blended yarn division and also looking at a lot of recycled products we are also looking at the organic cotton, we are also looking at various other sustainable fibers which is coming up so this kind of product profile is in very high demand internationally as well so by doing this I think we should be able to maintain some of our margins. Further lot of cost efficiencies is being done because of pandemic we got a lot of time to review our operations very minutely and we could bring down a lot of our cost which is evident in our financial results also. Our cost has been brought down in fact if we see our per employee efficiency has also improved so we are looking forward to various aspects, interest cost has also been brought down so these are the various aspects by which we think we should be able to maintain reasonable margin going forward better than what we had in the earlier years.

Gunjan Kabra: Sir like from the company point of view if you can share data regarding export like which country contributes how much to the export revenue like the major ones if you can highlight?

Dinesh Nolkha: Like in total our exports are about 76% and major export to the number one country in this particular quarter was Bangladesh which was in the vicinity of around 30% then European union we did about 21% in the European union as a whole and then China was down for us we normally do about 10% but this quarter we did only 5% then Latin America had a lot of disruptions otherwise there also but still we were able to do about 7% in Latin America, USA we were doing about 7% and the African continent also we do about 7% to 8% so it is pretty well distributed .This time some concentration happened in Bangladesh which is not normal but normally we have a proper distribution and China's share actually went to Bangladesh this time.

Gunjan Kabra: With expansion done in woven fabrics and other finished fabrics also so are we looking towards export market only or domestic or mix of both?

Dinesh Nolkha: Primarily this woven fabric business is focused towards this domestic sales, , we have international and domestic brands both, operating in India actually so they have a lot of garmenting done in India that is eventually exported out and some is sold in India for us that is a domestic sales actually so the prime focus is on various international brands which are working in India and also on the domestic brands which are already selling in India so the focus is more domestic oriented in this. In export most of this can go since this is a fashion business, this



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cannot go very long distance it has to be in the nearby vicinity areas likes of Sri Lanka, Vietnam, Bangladesh where the garmenting is rapid and economical as well so these are the areas that we are looking for exports otherwise more so in the domestic market.

Gunjan Kabra: Sir just one last question when you mentioned about the export share of different countries and now the U.S has banned Chinese cotton, so are we looking forward to any share of gains for that market, the US or what would be the share going forward if you have planned anything of such?

Dinesh Nolkha: Basically U.S is buying more of fabrics and garments, we have presence there in the fabric division and the share of our fabric business is definitely increasing in that particular market since earlier they used to import lot from China but we should also note that the shift from China some of that will be taken up by Vietnam and Bangladesh as well so from our side we are trying to increase our share this share if we go back to two years back the share used to be about 3% and it has now increased to about 7% and going forward, we are further trying to increase it.

Moderator: Thank you. The next question is from the line of Ravi Sundaram from Sundaram Investment. Please go ahead.

Ravi Sundaram: I have two questions, first question is now what are our plans on debt management and now we have been having a couple of good quarters and we expect a couple of more good quarters are we looking at bring down debt or are we looking at reinvesting to increase our capex?

Dinesh Nolkha: First of all at this point of time, we are looking to pay down our debt substantially, our debt in totality including our working capital was about Rs.960 Crores at the beginning of this year and we are fast forwarding some of our repayments so we expect normally in normal terms our repayments are about Rs.120 Crores to Rs.130 Crores every year but we expect that this year we will bring down our debts by about Rs.240 Crores to Rs.250 Crores.

Ravi Sundaram: My second question is from the capacity addition that you have mentioned due to the debottlenecking in the investor presentation so I think 4% is coming up due to this debottlenecking so in second quarter, would this be getting commissioned or commercialized?

Dinesh Nolkha: We are just on the verge of starting it up some part is under trial run and within this month of August, we should be operationally fully.

Ravi Sundaram: Okay so one last question now Q1 had some disruptions because of the lockdown in the domestic market now in Q2 we do not have that so would we have a better Q2 because we have now domestic consumption also coming in and what was the capacity utilization like in Q1?

Dinesh Nolkha: Like in Q2 definitely our capacity utilization has improved, we have beginning of course we are running full stream so that there is not major scope except on this part the debottlenecking which we are doing so that some part will come up in this quarter but for our woven fabric division



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utilization has improved definitely we expect better utilization in weaving and also in the processing side. Major issue which is there today is that once the markets are opening the retail side is still not picked up very well, we are seeing some demand coming up but most of the demand is being people are very scared of the third wave, they place the orders, intention is to take the thing but when it comes to delivery they just want to watch for the third wave that is even in the first quarter we had very good order books still we have very good order book on our fabric side but the deliveries are getting delayed due to this issue So, if God willing if we do not have any third wave during this quarter our performance will be definitely better.

Moderator: Thank you. The next question is from the line of Naresh Katariya from Money Curves. Please go ahead.

Naresh Katariya: My question is regarding the duty benefit on the RoDTEP, the benefit for exports for our yarn has that been considered is there anything positional we have considered and if not, what should we expect as the kind of benefit which will come to us for our export sales?

Dinesh Nolkha: First of all we have not considered any RoDTEP, we are not accounted for it in fact we have not accounted for any MEIS benefits also of last year which is not received by us so that is purely on the basis when it will be announced and accrued to us so then only we will account for it .But as far as what we should be considering there for last four to five months through our industry associations we have been talking with various authorities and also presenting our case for the various duties and especially cotton yarn being a produce which is being done from agriculture products where a lot of mandi taxes, state taxes, levies are being imposed, we expect a reasonable amount of benefit coming to us. This could be anywhere in the range of 1% to 2% so let us hope for the best. We have been hearing that ministry is going to announce this within this month itself.

Naresh Katariya: Sure and my second question was that you had relatively less sales in fabrics knitted or woven, could that part have been shifted to exports or we cannot do it at short notice?

Dinesh Nolkha: In the knitted fabric business we had shifted the capacity towards exports as we are in the knitted fabric business for the last 18-19 years so we have very good market intelligence available as well as we have customers around the world so we can and the same thing with yarn but in woven fabric business we are comparatively new and unfortunately for us that once we commissioned this plant, it was just in the beginning of 2020 and the pandemic hit. We could not develop our export market to the level which we have in our yarn and knitted fabric so we had to depend on our domestic fabric market. However, looking going forward we are also trying to diversify our products in the export market as well.

Naresh Katariya: Got it thanks a lot Sir. My last point is on this we are hearing a lot of container shortage for exports, are we experiencing anything or I think we have come to terms and we are efficiently managing, is it affecting our export business at all?



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Dinesh Nolkha: Definitely this is a very big issue I would be wrong if I do not say that we are not affected. There are effects to this and however we have more or less managed it in a reasonable manner. Some part of our inventory increase is also because of this effect there is a lag period of about five to seven days, various goods are lying at dock and not getting exported even if we are able to manage the container, there is vessel shortage also and the vessels are also not calling regularly so we are trying to come to terms with them, the cost has also increased substantially due to this, increase in the logistic cost of the sea freight as well as inventories have also increased and I think this is going to stay there for another two to three quarters.

Moderator: Thank you. The next question is from the line of Dhaval Shah from Girik Capital. Please go ahead.

Dhaval Shah: Sir my question is to the current profitability what we are enjoying so we saw this level in 2011 and now we are seeing the same profits so the event which happened in China the particular region cotton ban so now this is going to impact the entire chain. So, even the fabric which is made out of that cotton, do you see structural change to the industry because there is a large quantum of cotton which is gone out from the global supply chain. So what can be done to correct this supply or there is no way out unless that region comes back again in the market with its cotton, what is your reading?

Dinesh Nolkha: First of all we need to understand that this cotton is not gone out actually this is going to be available not for the global market but for the Chinese local market so what we are seeing is that China is promoting their own cotton in their own domestic and we see that a lot of advertisements are being put in a lot of their movie stars as well as their players as well as the politicians are promoting it very efficiently so we should not expect that this is going to be out of business completely. Why these margins are higher it is also not only because of this Chinese cotton. There are certain measures which has changed in the overall business scenario, first of all there is a inclination of the most of the buyers worldwide to go for a China plus one strategy basically people want to go for an additional supplier so they are shelling out China and trying to do business with other countries so that is one part of the business that is actually flowing that is fructifying at the moment first of all so that is going to remain because earlier if they were buying 80%-85% from them they have reduced their buy so this is going to be there.

Second part is in last few years if you see our industry build up a reasonable capacity .10 years back or earlier than that in the spinning industry we did not have that kind of capacity to cater the international brand in the large quantity. Now India is having very good capacity and we could cater in a very swift manner to most of the players. Also the quality of the products have improved substantially, so the sales for the Indian cotton has improved and on top of this for the yarn business at least one important thing has happened is most of our competitors are now out of business like Vietnam which used to be a good spinner now it is consuming its own yarn they are in fact short of yarn so they have to buy the yarn. Pakistan used to be again a seller of yarn which is no longer in the market today



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in fact they are themselves buyers of yarn. They are searching for more and more yarn. Also, Indonesia per se has become less competitive because of various political issues over there and also the price rise or inflation happening in that country and also Turkey has become slightly uncompetitive because of a lot of political turmoil happening so we are not left with many competitors in the yarn businesses in the international market. So that is also leading to improvement in the demand for the Indian yarn and we can see the kind of export figures we are churning out every month and every quarter this is the reason why we are able to do better even in the pandemic time.

Dhaval Shah: Sir, why Pakistan and Vietnam turned buyers?

Dinesh Nolkha: Because they have added a lot of capacity on their downstream site in basically home textile, Pakistan have put lot of capacity in the home textile also, they have shortage of cotton, their cotton production is down by 15% and they are dependent on import cotton. So spinning capacity is not being added majorly in that country.

Dhaval Shah: So, then what can impact the profitability of the yarn division.

Dinesh Nolkha: Basically if we have lesser crops in India someday which happens every once or twice in 10 years that Indian cotton becomes more expensive than the international cotton. Normally we are at parity with the international cotton, so as long as we have a parity I think the margins can remain sustainable. Also in our country there is a lot of inflation, and we see that a lot of power costs increases, lot of wage increases, if that is going out of context then that can also affect us and one more major thing is happening is that the new mills which are coming out also becoming very expensive so their production costs will be much higher than the what today we have. So that is also going to cushion us for the margins going forward.

Dhaval Shah: Would you think of expanding on the yarn side?

Dinesh Nolkha: Why not we have been in this area and there has been a consistent growth in 10 years we have increased our capacity , so why not going forward, we will definitely expand in this area.

Moderator: Thank you. The next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda: Sir these 17,000 tonnes of production volume that we see in the last two quarters. What is the capacity utilization there on the spinning side and I just wanted to confirm your spindlage before and after this debottlenecking.



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- P Maheshwari:** The capacity utilization is more than 95% in spinning in both the quarters and spindle capacity before this was 300000 spindles and we are adding 7,300 spindles right now so it will be 3,07,000 spindles.
- Pritesh Chheda:** So why are we mentioning 4% then it should be 2% addition right.
- Dinesh Nolkha:** Sir it is not only the addition of spindles which results in the production there are various equipments which we add on the various different kind of machines as we said debottlenecking so we add up various equipment at various parts of the machine to improve the productivity as well. So that will result in our production increasing by about 4%.
- Pritesh Chheda:** So which means that we have about 348 plus 7 which will go to 355?
- Dinesh Nolkha:** No, there are 3,00,000 spindles and this will go up to 3,07,000.
- Pritesh Chheda:** And this includes the rotors right if you have any rotors.
- Dinesh Nolkha:** No rotors is additional to this we have about 3500 rotors at the moment.
- Pritesh Chheda:** So, the 17,000 tonne volume that we see is including both right the spindles and rotors.
- Dinesh Nolkha:** Yes exactly.
- Pritesh Chheda:** And any thumb rule and is this thumb rule correct that one spindle produces about 250 kgs of yarn per annum that is the thumb rule or is it different thumb rule?
- Dinesh Nolkha:** No, there is no thumb rule sir, it depends on the kind of counts and the products that you are producing that you cannot identify one particular, every mill have a different kind of count structure the product structure according to that you can add up. If you go by that count we are producing about 550 or much more than that. So we should not go by that particular count, basically thumb rule.
- Pritesh Chheda:** And replacement cost per spindle should be what sir?
- Dinesh Nolkha:** Depends on the kind of equipments you put in now it is in the range of about at this moment about Rs.55,000 to Rs.60,000 per spindle.
- Moderator:** Thank you. The next question is from the line of Kirthi Jain from Canara HSBC. Please go ahead.



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- Kirthi Jain:** Sir with regard to debottlenecking in our fabric division when will we be able to take the decision sir?
- Dinesh Nolkha:** No, we do not have any debottlenecking in the fabric division, the fabric division is fully integrated our capacity is about 2.5 million meters for weaving, and 2.5 million meters for our woven fabric we have not been able to achieve the full capacity so that is one part, but there is no major debottlenecking required in that particular division.
- Kirthi Jain:** So, any scope there for debottlenecking?
- Dinesh Nolkha:** Yes, of course once we are able to utilize the capacity, definitely we can improve within the same premises and within the same area we can increase the capacity by 25%, 30% easily by adding few equipments.
- Kirthi Jain:** So sir when will we be able to achieve in your view full utilization of our fabric division and what can be the quarterly turnover of that.
- Dinesh Nolkha:** We nearly reached our capacity in the month of March of 2021 we reached nearly 88% to 89% capacity utilization in the month of March and as soon as this effect of pandemic is over we should be there to utilize the capacity we have been approved by various international brands and we have also got through in the major domestic brands also so we should be able to utilize our capacity to the fullest in next two to three quarters we expect that within this year itself we should be able to reach that level. Now coming to the topline once we are through with this, once we reach that level our topline from this business should be in the range of Rs 110 to Rs 120 Crores every quarter.
- Kirthi Jain:** And that will add extra EBITDA also right sir.
- Dinesh Nolkha:** Of course it is going to do that, there is a lot of value addition in the fabric business so that will also be reflected.
- Kirthi Jain:** Sir with the extra profit which will be coming from the fabric division we will be able to offset any loss if may occur due to a spread contraction basis what do you think in the H2 and next year.
- Dinesh Nolkha:** See definitely that is, I mean, basically the thought process behind going into the fabric business is that once you have an integrated operation the volatility is being taken care of so you have large margins to play any increase in the raw material cost or any other cost increases are being mitigated so that definitely helps us out that is why we wanted that the share of our fabric business grows to a reasonable proportion going forward so that all these volatility in the margin in the cost can be taken up.



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- Kirthi Jain:** Sir last question, we have been a fast-growing company, we have multiplied our business by 7x in 11 years 2010 to 2021. Why is that we are taking the route of calibration this year?
- Dinesh Nolkha:** Actually, this is a year of disruptions means today whatever we are seeing the sales is disrupted, the production facilities have been disrupted, logistics is disrupted. So, whatever we see in the near-term, we should not base our decision based out of just the one or two, few months or let us say one quarter basis. Definitely being a growing company we want to grow with the same pace as we have been growing in past 10 years or maybe even 20 years if we go we have been growing at a consistent CAGR of about 18%. So that still we wish to grow in the same pace, but we do not want to allocate our capital to areas which may lead us to problems or maybe over capacity kind of things in those areas. So, we are looking for opportunities to grow, we have the opportunity to grow in our spinning business easily, but we are looking for various products with some of them which may come under PLI. So, we can expand in those areas, the fabric business also we are hearing that a lot of incentives are being offered and new products could be allowed in the fabric business as well. So that is an area where we are looking forward. So it is just a pause I would say it is not something that we are delaying the thing we are just wanting to go in the right direction so it is better to wait for few maybe one or two quarters and then decide and then we can fast forward the whole thing since we have the whole infrastructure available of course with the kind of earnings we have, with us the internal accrual will also be available, so we can fast forward our expansions going forward.
- Kirthi Jain:** Sir when is the PLI expected to come and when like these winners will get signed finalized any ideas sir you are getting?
- Dinesh Nolkha:** Sir in fact it was supposed to be finalized in the month of June the minister has changed and now our new minister Mr. Piyush Goyal is reviewing the whole thing. So it is expected anytime, once this parliament is over we are hearing that once this parliament session is over we should be hearing about PLI so we hope that it is done as fast as possible so a lot of the clarity comes in about this growth in next five, ten years for the textile.
- Kirthi Jain:** So next year then we will have a single digit growth or how you expect the growth for next year sir, like fabric will be full utilization. what else will be a growth opportunity for next year sir.
- Dinesh Nolkha:** Next year we are adding like as we have done some debottlenecking adding some capacity maybe around 4%, 5% capacity will come up so which will be available to us we are further looking at adding up to a few capacities in various parts of our businesses so that will come up so definitely in the volume terms it may be addition in single digit only and if in the right time we are able to get the clearance about PLI and other things we may be



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going for some capacity expansions in some part in the last quarter or something like that, but that is yet to be cleared.

Kirthi Jain: So except PLI what is the current year capex and next year capex sir?

Dinesh Nolkha: At this year capex is about in the range of about Rs.35 Crores we will be doing about that is the Capex.

Kirthi Jain: Yes sir, what will be the capex for next year you are planning sir except PLI?

Dinesh Nolkha: Apart from PLI the routine we will be adding some Rs.25 to Rs.30 Crores will be spending next year from the various parts of our business to add capacities as well as debottlenecking or maybe improvement in the areas of wherever cost efficiency can come in.

Kirthi Jain: So cumulatively Rs.60 Crores is the Capex you are planning for next two years.

Dinesh Nolkha: Yes.

Kirthi Jain: Sure sir, my best wishes and congratulations for a great performance. Thanks a lot, Sir.

Moderator: Thank you. The next question is from the line of Tushar Sarda from Athena Investments. Please go ahead.

Tushar Sarda: I must appreciate the patience with which you have answered every participant's question and maybe educating us about the industry. I wanted to understand the interface between the yarn prices and the cotton prices because one would have thought that with the ban on Chinese cotton the cotton prices would go up and the yarn margins would get freeze, but it seems that the yarn companies are actually doing very well so how does this relationship work.

Dinesh Nolkha: Actually the relationship works on the demand supply basis. So as the Chinese cotton was banned the demand of the yarn also improved substantially and accordingly that is why the cotton prices have gone up. The cotton prices would have, if you see the cotton prices about six, eight months back since then it has improved by about 20 to 25% I would say that it has improved and accordingly the demand also came up so we were also able to increase the prices of our yarn. So that is normally when the raw material prices go up there is a limit to which you can pass on the prices, but since the demand has been good we were able to pass on completely to our customer.

Tushar Sarda: So does this mean that the yarn capacities are in balance and it is not excessive because India is supposed to have a lot of yarn capabilities. So the demand on the yarn side seems to be balanced, right?



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- Dinesh Nolkha:** Actually what happened was that in the last pandemic times when the capacities closed up nearly 5% to 6% capacities are permanently closed first of all so from supply side these capacities were out then normally every year we had been adding about 4% to 5% on the present capacity on the spindle side. So in 2020 we just added about 1% of the capacity even in 2021 we are expecting to add about 2.5% to 3% capacity so the capacity addition has also slowed down whereas on the demand side in last year of course the demand was lesser so that was balanced by the stoppages and the capacity closure and this year we have seen good demand as I explained in my earlier remark also that cotton consumption has gone up by 12.5% worldwide so that is possible only when you have the same capacity running to the full that is being restricted in the demand in the yarn itself.
- Tushar Sarda:** And one last question if I may how much the margin increase when you go into a forward integration in terms of how much do you earn more?
- Dinesh Nolkha:** It depends on the kind of products we are making basically different levels means we have knitting, we have wovens in that also there are work wear there is fashion so it depends on the kind of products that any company is making so the margin is strictly available because when you have a product bucket then you can spread it according to the demand. So definitely the value addition gives you some additional cushion to your margins.
- Tushar Sarda:** If we take some ballpark would it be 200 to 300 basis point or would it be like 500 to 600 basis point increase.
- Dinesh Nolkha:** 200 to 300 basis point over the yarn?
- Tushar Sarda:** Yes, over the yarn.
- Dinesh Nolkha:** Definitely it will be more than that because 200 basis point we would not be able to justify our capital location to it. So nobody will be able to do that at that particular level so definitely it is on a higher side.
- Tushar Sarda:** Thank you sir. Thank you for patiently answering all the questions.
- Moderator:** Thank you. The next question is from the line of Abhilasha Satale from Dalal & Broacha. Please go ahead.
- Abhilasha Satale:** Sir I just want to understand that when the new cotton crop arrives which will be at a higher price so in commensurate to that whatever the contracts we will be entering currently or within a quarter within the second quarter or so are we factoring that kind of increase for the next six to eight months in our cost how do you expect yarn price to improve or to react to the new cotton I am not asking to give any number but just based on your experience and past this if you could just give us a direction in terms of how is yarn



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demand supply play and which commensurate to the new cotton price increase which is expected?

Dinesh Nolkha: Like first of all the cotton prices today are ruling at one of its highest level of last 8-10 years and from here we are not expecting any major price increase in the next cotton season. Next cotton season as we all know normally directed by the two aspects first is the minimum support price and secondly the international prices. So first minimum support price in the next season would be at the level of about 43,000 or so, which is far lower from the level which we are at the moment and secondly the international we are after a long time basically our cotton prices are above the international prices the present prices are more of a speculative nature rather than the actual base of it because most of the bigger players most of the reasonable size mills have already covered the cotton and very less cotton is left with cotton corporation as well as the various traders. So these prices are not the real measure, the real measure would be the prices which are prevailing at the end of March or early April so from there we are not expecting any major change of course it will be lesser than what we are having at the moment and at that price point already that is being factored in it means the present prices would be higher and the forward prices would be lower that is also reflected in the forward contract which is happening so we can easily take care of our margins and also the pricing part considering that.

Abhilasha Satale: Sir can you just tell us what was the EBITDA per tonne in terms of spinning for the spinning division for the quarter?

Dinesh Nolkha: Actually, we do not calculate the EBITDA per tonne basis.

Abhilasha Satale: You can tell me EBITDA per spindle per day that is also fine.

Dinesh Nolkha: Like that will have to be calculated Maheshwariji, if you can in the meantime calculate the EBITDA per tonne or EBITDA per day or let us say for spindle that would be helpful for them if you can just elaborate and if you calculate and tell them.

Dinesh Nolkha: Normally we operate on the cotton yarn spread bases so that is cotton yarn to cotton spread that is something which normally operates people operate at.

Abhilasha Satale: Yes, so you can also tell gross margin also that is also fine even gross margin per single per day or gross margin per tonne anything would be okay.

Dinesh Nolkha: Yes, like cotton yarn spreads in this particular quarter was in the range of Rs.120 a kg which was earlier about Rs.106 to Rs.107 a kg in the last quarter.

Moderator: Thank you. The next question is from the line of Gaurav Punjabi from Ivycap Securities Pvt. Ltd. Please go ahead.



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- Gaurav Punjabi:** The results are really good and just a few questions around the numbers first thing I would just wanted to understand, I see a large inventory gain obviously which is not something which would be recurring and getting over a span of time which is again pushing up all the margins now when I look at the cotton prices from April to June which is when the quarter ended that was again about 16% to 17% rise in the cotton prices. Now after June to currently if I see the current cotton prices there is another 5% to 6% cotton prices increase so just wanted to understand have yarn prices moved in a similar range and would we again see something like a massive gain on inventory side or do you expect this to normalize over maybe a couple of quarters?
- Dinesh Nolkha:** In the last quarter our average cotton price increase was about 12.5% and the yarn prices also increased to the same tune of about 12% so they were both moving in tandem. This quarter also we are seeing means in fact as I explained in the earlier question that the prices which are prevalent today are more of speculative in nature especially of last two, three weeks have been more on the speculative side so we should not be basing any of our inventory gains or even our pricing decisions on the basis of that normally at that this point of time normally we see how the international market is moving and there we are seeing there is a stability of prices of the Cotlook Index at around 100 cents per pound and Indian cotton prices are also in the range of about 94 to 95 cents per pound so we do not see any major inventory gain or so during this quarter and it has already started to normalize because of course if you see the major inventory gains were coming in the March quarter when the prices moved very, very sharply from very low base so that was majorly at that point of time.
- Gaurav Punjabi:** So sir in the long run since we have been tracking this company and we have seen 15% to 17% EBITDA margins and that is where the management has always guided that this was always the long-term expected EBITDA margins while all this inventory gains have posted to beyond 20% where do you see obviously there is a contribution from the fabric business etc., but if you have to see let us say three to five year down the line what are the normalized EBITDA margins that you guys internally target or if there is any sort of guidance on the margin specifically, blended margins?
- Dinesh Nolkha:** Yes, first of all means I would just like to correct you that these are not inventory gains we are getting basically yarn prices are also, this the yarn price are moving in the same direction of the cotton so normally if our cotton costs are in the range of 55% to 60% range and if they increased by 12% that the yarn price increase should be about 7% to 8% or 9% I would say. But in this year this has increased to 12%. So you get a advantage that kicker of 2%, 3% you get additional that is reflected in our margins so when the prices move in tandem so that is the main reason for the increase in the EBITDA. Now coming to our second part of your question where you said that what should be the average I have again been saying this for last so many years that the standard margins are in the range of 16%, 17% in the range of this level only for the yarn business and I do not see any major reason



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or change in this happening unless we see some structural changes happening in next few times in the policies of our government or also in the kind of demand scenario which is changing all around the world after pandemic if something to that tune happens then we may have a relook at the part of the margin side but otherwise it should remain at this level and further our fabric business should be contributing substantially going forward we expect that 30% of our yarn will be converted into our own fabric so the fabric is also be nearly more than 35% of our total sales which will substantially contribute to our margin so going forward the stable margin levels in the long-term which we target is about 20% level you can say the range of 18% to 22% that is at the kind of margin level we expect in the normalized times.

Gaurav Punjabi: Understood also just one last question, back in 2018-2019 in fact from 2016 there was a website by the government which is on the textile ministry which used to give a good data on the yarn prices and the cotton prices on a monthly basis but that seems to have stopped they have not updated since 2019 I guess any other website that like a normal investor could look at where there is a good update on yarn and cotton prices, something on top of your mind?

Dinesh Nolkha: At the moment nothing is coming so when once things comes up we will inform you for that as well. But cotton prices are getting updated very regularly on the Cotlook Index you can have a look at Cotlook Index.

Gaurav Punjabi: Yes, cotton is not the issue actually from the yarn side which is a little, you have to look around and you eventually do not find a good source. No problem sir.

Moderator: Thank you. The next question is from the line of Chirag Lodaya from Valuequest. Please go ahead.

Chirag Lodaya: Congratulations on good set of numbers. Sir my first question was how would our average cost of carrying cotton would have changed in this quarter compared to last quarter because as I remember correctly you carry three to four months inventory on a rolling basis so compared to this quarter Q2 your carrying cost would be higher so what would be that change?

Dinesh Nolkha: Carrying cost in this quarter will rather come down because normally at the end of the season we reduce our inventory because we are expecting the new cotton which will be at lower price so accordingly we start to taper down on the inventory side by second quarter and then again in the last quarter we again start to build up our inventory. So nearly from August, September till November, December normally our inventory carrying is lesser.

Chirag Lodaya: What I am trying to understand is in Q1 your average cost of cotton would be say Rs.100 so in Q2 it would be higher than Rs.100 right?



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- Dinesh Nolkha:** Yes, of course it will be higher because prices have been increasing and we have been buying during Q1 as well so of course the prices, the increasing effects will definitely be there from increasing the cotton cost will be there.
- Chirag Lodaya:** So, will it impact margins in Q2 then compared to Q1 that is what I am trying to understand.
- Dinesh Nolkha:** As of now we do not see any major impact because we normally operate with one to three months contract so we were also fulfilling our old contracts in last quarter, so this quarter we are also having new contracts with increased prices as well. So as of now we are not seeing any major impact on the margins.
- Chirag Lodaya:** And just sir secondly at a current capacity and current prices what can be the peak turnover you can achieve eventually at optimum level?
- Dinesh Nolkha:** Of course subject to the prices means we need to look at that...
- Chirag Lodaya:** At current prices.
- Dinesh Nolkha:** Yes, current prices is one major factor which is there at current prices we should at least be doing more than 600 Crores per quarter.
- Chirag Lodaya:** And sir secondly what is the reason for the repayment of debt to till last quarter, you were saying that you will repay as per schedule because your average cost of debt is quite low so what has changed and then why you are repaying more.
- Dinesh Nolkha:** First of all there are certain small loans which are not having the benefits of the any interest subsidies or interest benefits so that will have to be paid up so that we want to pay them up, first of all. Second is the routine payment is also there which we are also paying off and thirdly we are parking our excess accruals in our working capital which is at a normal cost which we are again reducing so we are getting ready for the next growth phase so once this money is available to us whenever we want to since these are parked in our working capital limits. So, once we are ready with our plans then we can deploy the money accordingly in those areas.
- Chirag Lodaya:** The income tax rate for this year and next year would be.
- Dinesh Nolkha:** This year is of course is about 35% and next year definitely we expect with the kind of our MAT credit which we have should be, we should be able to take care of this during this year and next year we expect that we should be back to 25% level.
- Moderator:** Thank you. The next question is from the line of Faisal Hawa from H.G Hawa & Company. Please go ahead.



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- Faisal Hawa:** So, as you said sir this year we will not be expanding too much so is there any chances of doing debottlenecking and how much can we increase our revenues by debottlenecking?
- Dinesh Nolkha:** See revenue definitely is a function of price and the quantity which I can guide you about the quantity as told...
- Faisal Hawa:** I meant volumes for quantity.
- Dinesh Nolkha:** So, volumes we are going to add about 4% to 5%, and we are looking at other areas where we can further increase our capacity within the existing equipments and at the existing facilities. So that is what we are looking at, at the moment for this year.
- Faisal Hawa:** And second sir do you feel that having a very strong yarn ecosystem in India for a very long time and having very strong suppliers also has also helped India and really getting ahead of Vietnam and Pakistan, etc?
- Dinesh Nolkha:** Definitely India as the country has done pretty well in yarn business, we are leaders in the yarn business we control nearly more than 30% of the world market share in this business and being a very consistent players and quality being produced of top notch. What has also helped us further in past 8 to 10 years most of the machinery manufacturers worldwide includes from various parts of the world have shifted their bases to India and the latest technology is also getting available being produced in India as well. So and this is also helping our spinning industry to equip itself much better than what it was maybe 8, 10 years back so that has aided to, so this has given a consistency also the cost factor has improved for us we are quite cost efficient in terms of capital cost as well as operational cost vis-à-vis various other countries.
- Faisal Hawa:** And I think this PLI scheme if it comes through could be the biggest game changer.
- Dinesh Nolkha:** Yes, means of course PLI is not going to come in specifically for all kinds of products in the textile arena they will be focusing on the areas where we are lacking especially as we have mentioned that they will be focusing on man-made fiber ,certain technologies which we are not being taken up , certain product which we are importing at the moment and which is being reviewed at the moment. we are looking at what we can export out of our country what is our strength with this PLI, I think the major change will happen is whatever is getting imported inside our country if we can replenish them and it is not a small sum we are seeing that the imports of textiles, fabrics another is to the tune of \$3 to \$4 billion at the moment. So this \$3 to \$4 billion can easily be captured immediately plus the garments also is getting imported from the likes of Bangladesh, Vietnam and China as well so that is another \$4-\$5 billion so this is a large chunk which we can capture within our country plus our growing population increasing consumption that should all help the growth of the textile industry.



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- Moderator:** Due to time constraints, we will be able to take one last question which is from the line of Aayush Mittal from Mittal Investment. Please go ahead.
- Aayush Mittal:** First of all congratulations on a very good performance I had some couple of questions like a follow-up in reference to earlier discussion. So, one thing wherein you have said that this year like the Capex requirement is low while we are waiting for more details for government for PLI scheme to do the larger expansion and capex, can you share some thoughts as to what quantum of a debt or Capex are you comfortable or that with the current size of balance sheets. I am asking this question because we have seen in past that the textile company will go through and so how has the thought process evolved for the management and what kind of debt levels are we okay with?
- Dinesh Nolkha:** As you can see we have been growing steadily by borrowing money as well as raising capital for growth part we have done with mix of both. As you know these are the capital intensive industry and we need capital to grow so that will definitely we will need borrowed money for any major manufacturing activities to grow substantially from here now so definitely going forward we wish to grow with the same pace what we had done in the past few years it is just a pause and we definitely will be looking to various areas where we are doing good. we are still about 3,00,000 spindles and we can go much further the from here because still we have a lot of capacity can be put in this area, knitting business is doing very well and that can be further grown into various areas so the capacity can be increased substantially. Now we have to balance our loans how much debt we can take in our balance sheet and what is sustainable so that is we have always been prudent in doing that in past as well so for that we will consistently look at the cost of our borrowing we have been borrowing at a very cheaper cost especially for our Capex for working capital it is normal but for our Capex the borrowed cost is very less in the tune of 3% to 4% level so if we considering that we and we do whatever expansions we do normally we do it very prudently and try to go into areas which has a good demand and the cycle is working for us looking into all those things we would be comfortable at a Rs.1,000 Crore debt level at the moment, at this point of time long-term debt is about Rs.675 Crores of which will repay Rs.175 Crores during this year we will be at about Rs.500 Crores so we will be okay to go in for additional debt of about Rs.500 Crores going forward easily and also this kind of growth is possible for us.
- Aayush Mittal:** Sir my question was you already have the land and infrastructure in place or you will need to invest into land and get clearances and everything?
- Dinesh Nolkha:** We already have sufficient lands available with us for a reasonable expansion and infrastructure is all available small pieces of land may be adjacent to us may be required that is not a major concern.



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- Aayush Mittal:** Sir one more question if I may squeeze in. What was the realization in this quarter and how are the prices currently like we have read some articles wherein the recent price increase has been very high in international US cotton and yarn can you share something on that?
- Dinesh Nolkha:** Realization part for the cotton yarn you are asking for?
- Aayush Mittal:** Yes, for your end product.
- Dinesh Nolkha:** Yes, cotton yarn prices were about on an average basis was about Rs.315 rupees a kg for this quarter.
- Aayush Mittal:** How much?
- Dinesh Nolkha:** Major price increase which has happened in this particular quarter we are not seeing any major increase in the yarn prices it is to the tune of maybe 3%-4% and raw material prices have also it means whatever increase has happened was primarily at the end of June or maybe in the beginning of this quarter itself.
- Moderator:** Thank you. We will take one last question which is from the line of Jinesh Shah from Kongu Commodities. Please go ahead.
- Jinesh Shah:** I would like to know what would be the percentage of cotton mix vs what is the other fibers that we use?
- Dinesh Nolkha:** We are using about 90% cotton and 10% is other fibers.
- Jinesh Shah:** And what would our order book be like right now.
- Dinesh Nolkha:** Order book at the moment, I am talking as of today, could be in the range of about Rs.400 to Rs.450 Crores.
- Jinesh Shah:** Thank you so much.
- Moderator:** Thank you. Ladies and gentlemen due the time constraint that was the last question. I now have the conference over to Mr. Awanish Chandra for closing comments.
- Awanish Chandra:** Dinesh sir just one last thing you have talked about growth things which is our plans. I just wanted to know what is the big picture for two to three years like we are already hitting Rs.500 to Rs.550 Crores run rate from the top line so it means we are already at more than Rs.2,000 Crores topline on yearly basis, what is the plan to make it Rs3,000 Crores any timeline on that so any tentative plan which you can share with the investors?



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- Dinesh Nolkha:** Awanishji first of all let me thank you for having us and hosting this conference call and on this part of growth path definitely as you have watched and tracked our company for long years you know we have been growing very consistently and our endeavor is to grow at the same pace definitely our expansion are in working we will definitely be expanding our capacities on the spinning and as well as on the side of our downstream processes so in next two, three years time we would be, as I explained in the last question that we are comfortable taking loans to the tune of about Rs.500 Crores and plus our own internal accruals put together we could be in a, we would go in for a substantial expansion path of course but where to go in for which areas to allocate the money is something which we are looking forward and we are looking if we can get the good government benefits out of it, means, we have taken advantage of TUFs majorly, we have also taken the advantage of the state incentive which has been offered to us we also want to take advantage in something which is going forward so looking into that considering that we will definitely go for an expansion and as you can extrapolate our past numbers to see where we would be 2-3 years down the line we would be looking for the same kind of growth path going forward as well.
- Awanish Chandra:** Okay sir. Thank you very much Dinesh sir and Maheshwari sir for spending your valuable time and providing us this opportunity to host the call. That is it over to you.
- Moderator:** Thank you. On behalf of SMIFS Limited that concludes this conference. Thank you for joining us and you may now disconnect your line.