“Nitin Spinners Limited

Q2 FY2022 Post Results Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Q2 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 would now like to hand the conference over to Mr. Awanish Chandra from SMIFS Limited. Thank you and over to you Sir!

Awanish Chandra: Thank you Janice. Good evening everyone, on behalf of SMIFS Limited I welcome you all to Q2 FY2022 conference call of Nitin Spinners Limited. We are pleased to host the top management of the company. Today we have with us Mr. Dinesh Nolkha, Managing Director of Nitin Spinners and Mr. P Maheshwari, Chief Financial Officer of the company. We will start the call with initial commentaries on results and then we will open the floor for question and answer. Now I will hand over the call to Mr. Nolkha, Managing Director. Over to you Dinesh Sir!

Dinesh Nolkha: Thank you Awanish and the management of SMIFS for hosting this call. Good afternoon and warm welcome to all the participants to the post result investor and analyst meet of Nitin Spinners Limited. I hope you are all keeping safe and healthy. I hope you had a look at our investor presentation that is uploaded on our website and stock exchanges.

As you all know Nitin Spinners is a leading manufacturer of cotton yarn, blended yarn, knitted fabrics and woven fabric. The company's leadership in cotton and blended yarn and the fabric manufacturing is driven by its continuous investments in the latest technologies resulting in delivering international standard quality products and optimum cost. The company has achieved in this quarter highest ever topline and bottomline. This was cumulative result of better capacity utilization, focus on value added products and cost efficiencies coupled with strong export and pickup in domestic demand. During the quarter we have also added about 7296 spindles to our operations and yarn capacity has increased to 75000 tons per annum from 72000 tons per annum earlier.

As you all know the textile industry is going through a structural change and witnessing strong demand from major consuming countries. Government's thrust on Aatma Nirbhar Bharat is expected to surge internal demand for raw materials hereby uplifting the industry and its ecosystem. We aim to capitalize on growth opportunities rising from investment promotion schemes of the state governments and other announced schemes of the central government as well. Many countries have adopted China plus One policy and the shift of the same happening to various other countries. We endeavor to maintain the topline growth momentum by optimizing capacity utilization and continue to add value added products and use of sustainable fibers and adding capacities at our existing locations along with exploring new market across the geographies. I now hand over the call to Mr. Maheshwari who is the Chief Financial Officer to give you the operating and financial highlights for Q2 and half year ended in September.

P. Maheswari: Thank you Sir. Good afternoon everyone and thank you all for joining the call. I would like to touch upon the operational and financial highlights for the quarter ended September 30, 2021 as well as half year ended September 30, 2021. The revenues for Q2 FY2022 increased to Rs.665 Crores from Rs.427 Crores in Q2 FY2021 that is an increase of 56% on Y-o-Y basis. The half yearly revenue stood at Rs. 1218 Crores as compared to Rs. 646 Crores in FY2021 half year registering a growth of 89% on year-on-year basis. EBITDA for the quarter stood at Rs. 178 Crores as compared to Rs. 55 Crores in Q2 FY2021 that is a growth of 120% on year-on-year basis. For half year EBITDA stood at Rs. 306.08 Crores as against 79 Crores in H1 FY2021. EBITDA margin for Q2 FY2022 is 26.7% ,the improvement in margins were supported by RoDTEP benefit and if we adjust the earlier period's RoDTEP benefit the EBITDA margin for the quarter is 24.7%. Reported PAT for the quarter is 87 Crores as against Rs.12 Crores in Q2 FY2021 that is 633% growth on year-on-year basis, on half yearly basis profit after tax was Rs.147 Crores against Rs.3 Crores in half year FY2021. EPS and cash EPS for the quarter were Rs.15.54 and Rs.19.42 respectively. During six months of this year we reduced debt by 227 Crores from March 2021 level. As regards operational efficiency during the quarter we produced 18500 metric tons of yarn as against 16700 metric tons in Q2 FY2021, about 25% yarn is actively used for knitted fabrics and woven fabrics. Knit fabric production was 2378 metric tons during the quarter which was 1818 metric ton for the same period last quarter. Woven fabric production for the quarter was 67.33 lakh meters against 65.83 lakh meters in Q2 2021, whereas finished fabric production was 49.53 lakh meters in Q2 2022 against 30.82 lakh meters in Q2 2021. I would like to conclude my commentary with a strong belief that we would achieve strong topline and bottomline growth for the rest of the year with the outlook of strong demand going forward at domestic as well as global level. Now I open the floor for questions and answers. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Yash Agarwal from JM Financial. Please go ahead.

Yash Agarwal: Good evening Sir and congrats on a very strong set of numbers. My first question is what was the average yarn realizations in the second quarter and could you also give some highlight of what the current yarn realization is and the second question is that we have been hearing that the cotton prices for the new season are up from about Rs.45000, Rs.47000 a candy to in excess of Rs.70000 a candy so incrementally is it fair to assume that the spreads could be under pressure maybe from once our low cost cotton inventory gets over? These are the two questions from my side Sir.

Dinesh Nolkha: Thank you. First of all I would like to answer your second question first and then I will be able to give you the data for the first question**.** present price of cotton is about Rs.66500 per candy and in the last quarter Ruling price was about Rs.52000 to Rs.53000 a candy so there is an increase of about 20% in the prices in this quarter. I think presently there is a very good demand of yarn and most of the increase in the cotton prices are getting passed on in rupee terms or maybe in per kg terms. Last quarter's average realization price of our yarn was in the range of about Rs.320 per kg and I think at this point of time this is running at about Rs.350 to Rs.355 a kg.

Yash Agarwal: So what you are saying that the cotton consumed in the second quarter was at Rs.52000 a candy and now at 64000, 65000…

Dinesh Nolkha: Not consumed I am telling you the Ruling prices. Consumption cost will depend as per the quality which we are using and I am telling you the base prices of the raw material at the moment.

Yash Agarwal: Followup question was that will we are sitting on some low cost cotton inventory in the second quarter or you would say that broadly our cost was in line with what the market price average was in the second quarter?

Dinesh Nolkha: Our raw material prices were more or less in sync with the market prices and there was no such extraordinary low cost.minor 1%- 3% plus minus definitely cannot be accounted for but there was no major low cost inventory.

Yash Agarwal: Sir one more question was that what is the general margin difference that we are having in yarn and in the value added segment and which is more remunerative I would believe in the fabric and denim split?

Dinesh Nolkha: This additional margin for the fabric basically depends on the products which we are manufacturing. actually it can be different for different products that if you are doing dying, printing, finishing then it will be different, if you do only greige then it is different so you cannot quantify, of course it is value added accretive but at this point of time when the prices of raw materials as well as the other intermediates like coal, dyes and chemicals, everything, have increased substantially in last three four months so it takes some time to pass on those prices, apart from that definitely that is more value added and more value accretive.

Yash Agarwal: Are we getting the right price hikes or going forward do you believe that the price hikes would come about in the fabric segment?

Dinesh Nolkha: Definitely it is looking so but as we see at this point of time the channel is empty we are not seeing too much of stocks in the pipeline as because of COVID 2nd wave nobody was buying domestically and the buying was very less last quarter in the domestic market so we see that and since prices have increased across the board not related with one manufacturer so we definitely feel that this will be passed on in due course of time.

Yash Agarwal: Is cotton prices expected to rise further from here or do you feel this could be the peak Rs.66000, Rs.67000 that you said?

Dinesh Nolkha: This is something which is very difficult to answer and this depends on lot of international and domestic factors, of course the cotton prices have run up sharply and in such circumstances normally prices consolidate at a lower level and then maybe at the end of the season can go up again but this is all depending on the supply side disruptions which is happening and also, what is happening in rest of the world.

Yash Agarwal: Sure Sir. Thank you so much for answering my questions and best of luck for the future performances. Thank you.

Moderator: Thank you. The next question is from the line of Sanjay Shah from KSA Securities. Please go ahead.

Sanjay Shah: Sir good evening and thanks for the opportunity. Sir can you highlight upon the future prospects of our industry and y even particularly our company as far as value added products are concerned and how are we going ahead with the growth trajectory from here on for the next two three years because I suppose we are about to consume the full capacity and so at full capacity what turnover we can do and what additional we are doing to enhance the capacity and growth path ahead?

Dinesh Nolkha: As far as the textile industry as such is concerned it looks quite promising around the world and we are seeing that there is lot of demand coming towards the Indian textile industry so government is doing the right to improve upon the exports as well as the international markets, so the future looks promising. As far as our capacity is concerned I think we are nearly getting fully utilized for our spinning capacity. For our knitting capacity also we are nearly fully utilized as such we are running at more than 90% capacity and in woven we are reaching nearly our top capacity now this quarter so definitely as far as the utilization is there we will be running at full capacities in the next half year. Regarding the topline from this it depends a lot of factors like as we have seen that raw material prices have gone up by around 35%, 40% in the last six to eight months so consequently the finished product prices also improves. So accordingly the topline keeps on varying so I cannot comment exactly on what topline we would be achieving or where we can be with this capacity because if the prices increase further we may have to think. I hope to maintain the second quarter performance in topline going forward as well as far as this year is concerned. As far as the future growth is concerned we are now definitely planning for various capacity expansions as I said in my opening remark as well that we are looking for Brownfield expansions at this point of time at our existing two locations which we have and we are evaluating various options to grow our business.

Sanjay Shah: Have we lined up any drawing or it is still on a drawing board or what capex are we going to spend have we finalized or are we going for PLI schemes or anything else?

Dinesh Nolkha: First of all we are not going for PLI scheme at this point of time basically because of the PLI scheme as such is in the present form, requires a Greenfield expansion in a new company and as such existing infrastructure cannot be used for that purpose, so at this moment we are not considering any investment in PLI, we have already represented through our various textile associations and also directly to the textile ministry about this and requested for certain modifications. Also certain products are not complete in full form so we are definitely talking to them for that so at the moment we do not have any plans for PLI but definitely we are making the plan for our existing product lines and as soon as we are ready we will definitely inform all our investors.

Sanjay Shah: What capex are you planning?

Dinesh Nolkha: At the moment I would not like to comment on that because we are evaluating various deliveries of equipments, kind of capacities ramp up we can do for various business ,so all those things we are working out I would request you to wait for some more time.

Sanjay Shah: Sir we have been doing phenomenal growth on export side so still our export demand is so buoyant or are we thinking to spread our wings in domestic market or export is sufficient enough to fully occupy our business because we are increasing export every quarter-on-quarter?

Dinesh Nolkha: It was more of a compulsion rather than choice, actually as in the first quarter we saw that we were having lot of lockdowns in our country so we had to shift to export businesses and then RoDTEP was announced it was a very good incentive for us to tilt ourselves towards exports so we are seeing that exports have been commercially more beneficial so we have accordingly tilted our balance towards exports however we are very active and agile about the domestic market also.

Sanjay Shah: My last question was can you highlight upon your focus on new areas of growth like our use of organic cotton, use of recycle polyester, staple fiber or anything what else you can throw us?

Dinesh Nolkha: Of course our focus has been on the various value added products like core spun yarn, stretch based yarn, also we are focusing on organic yarn, recycled cottons, recycled polyester, so all the kinds of products and also we are Concentrating a lot on super fine imported cotton yarn like giza and pima, so these are various products which we are already producing and focusing on and we will continue to focus which will add value to our products.

Sanjay Shah: That is great and what will be our debt position at the end of this year?

Dinesh Nolkha: At the end of this year I think long-term debts would be somewhere in the range of about Rs. 400 Crores and of course working capital debt which is at about Rs. 130 Crores at this point of time ,will depend on the kind of cotton inventories which we carry into the next year.

Sanjay Shah: That is great. Thank you Sir. Wishing a good luck to you Sir.

Moderator: Thank you. The next question is from the line of Abhilasha Satale from Dalal & Broacha. Please go ahead.

Abhilasha Satale: Thank you for giving me opportunity. Sir I want to know that how much RoDTEP benefit we have accounted for in this quarter and without this benefit how much has been our margin so basically have we also accounted for the previous and is it year till date which has come entirely in this quarter?

Dinesh Nolkha: Yes From January 1, 2021 to September 30, 2021 has been accounted for in this quarter. We have given the breakup also in our results it is about Rs.7.5 Crores for Q4 of last year, Rs.9.8 Crores for Q1 of this year and about 9.7 Crores for this particular quarter, so if we remove this our revenue would have been about 647.28 Crores for this quarter EBITDA would have been about 160 Crores is giving us margins of about 24.73%.

Abhilasha Satale: One more thing, we have said that the cotton prices have increased to 66500 so can we assume this would be the cotton cost for the season because I think we would be inventorying cotton by December, January like we would inventor most of our cotton requirement so this would be the average cotton cost for this season?

Dinesh Nolkha: No, this will not be the average cotton cost for this particular quarter because we were already carrying some inventories of last cotton season and of course when this season also started it was 54000, 55000 and then now in early November it has reached at this level so definitely it will not be at this level it will be at lesser level.

Abhilasha Satale: We have also said that the yarn realization during the same period has increased from Rs.320 per kg to Rs.350 per kg so which if I calculate on a per candy basis then overall it is similar to what we have seen in the cotton prices so largely we have passed on this cotton price increase in the yarn realization. so on a per kg basis, per ton basis our margins would be similar on a quarter-on-quarter basis on going ahead in third and fourth quarter?

Dinesh Nolkha: Basically on per kg basis it looks that we have been able to pass on and we should be able to maintain our margins for Q3, for Q4 we are still to see the next season which is coming in and what kind of prices of cotton remains. Basically there is volatility in the prices means up and down if there is a sharp volatility then definitely this impacts business sentiment and then the customers as well as the suppliers both become more cautious of the price hike so we will have to see and evaluate for the Q4, but Q3 it looks like that in per kg basis we should be able to maintain the margin.

Abhilasha Satale: Thank you.

Moderator: Thank you. The next question is from the line of Yogansh Jeswani from Mittal Analytics. Please go ahead.

Yogansh Jeswani: Thanks for the opportunity Sir. Lot of my questions are already covered in your discussion so far, so just trying to get more sense on the yarn sales, currently in the yarn sales that you are seeing for Q3 are they higher than what you saw in Q2 or are they almost flat?

Dinesh Nolkha: Margins are more or less in similar line.

Yogansh Jeswani: In terms of overall cotton production which I think the cotton production is a bit stressed so do you feel the cotton prices have the potential to go further?

Dinesh Nolkha: The production in India is estimated to be about 360 lakh bales which is more or less same as last year of course global production is down by about 2.5% and also there were supply disruptions like logistics issues and others due to which the global prices have firmed up substantially since in last one year they have gone up from 80 cents per pound to about 125 cents per pound. So there is lot of fluctuations in prices of raw material ,since we are internationally linked we have to depend on what kind of scenarios has been presented internationally so it is too early at this point of time to predict what is going to happen but I think in next one, one-and-a-half months there will be much more clarity on this account.

Yogansh Jeswani: Fair enough Sir I think Q3 call would be a better time to get more clarity.

Dinesh Nolkha: Yes of course.

Yogansh Jeswani: Sir one last question from my end then I will get back in the queue so between FY2021 and FY2022 please if you can clarify is there a scope for further volume growth as well I think in the beginning you have mentioned that you are operating at almost full capacity at spinning, knitting and this woven fabric so between FY2021 and FY2022 is there a scope for more volume growth?

Dinesh Nolkha: Yes, of course since we have some volume growth left out for us in the fabric production side definitely there is some volume growth which can happen, also if you see in yarn business our new capacity has just been added so slight increase we are seeing in overall production at the moment.

Yogansh Jeswani: So it it fair to assume 10%, 15% kind of volume growth?

Dinesh Nolkha: No, 10%, 15% volume growth overall will not be possible from here because already we are running our yarn business at full capacity only the volume growth will happen in the fabric business.

Yogansh Jeswani: That is it from my side. I will get back in the queue Sir.

Moderator: Thank you. The next question is from the line of Manoj Baheti from Carnelian Capital. Please go ahead.

Manoj Baheti: First of all congratulations for very good set of numbers. Dinesh ji you mentioned about Brownfield expansion so the place where we have put our new plant how much surplus land we are having and whether that surplus land will be sufficient to take care of Brownfield expansion and also on the utility part I think the existing utilities can take care of Brownfield expansion right?

Dinesh Nolkha: We have first of all land available at both locations, a small parcel of land which is what adjacent to us will be required is to go to a reasonable size expansion so that is always possible without much incremental cost. As far as utilities are concerned we have major utilities with us like infrastructure, electrical infrastructure, other manpower infrastructure is already in place definitely that is going to be an advantage.

Manoj Baheti: So does it mean that whenever we decide about new plant the execution and commissioning will be much faster and in terms of capex cost it would be lower right?

Dinesh Nolkha: Yes, of course execution should be faster because of the existing infrastructure available but cost wise cannot comment on this stage because there is a lot of input prices changes happening in the equipment prices, also as we are seeing that there is a lot of increase in prices of the cement, steel, and other electricals like copper, aluminum so these prices will definitely get affected into the cost front, we are still to see that part of it what is the new cost going to be.

Manoj Baheti: So how much time will it take let us say once you decide to setting up the new facility assuming like if we have to replicate the similar kind of thing again so how much time will it take vis-à-vis cost?

Dinesh Nolkha: Replicate what our new capacity or existing capacity to be replicated?

Manoj Baheti: The new capacity to be replicated in case you decide to replicate the new capacity how much time will we take from decision till commissioning?

Dinesh Nolkha: Actually for us whatever capacity we plan to be able to do it in I think 12 to 15 months time that is the timeframe normally we take this has been in the past; however, we have seen some supply side issues due to the semiconductor chip shortage and machine manufacturers facing some problems due to that maybe one or two months here and there otherwise that is the reasonable period when we can do that.

Manoj Baheti: On the current spreads which we are having between yarn and cotton what kind of spreads are right now and going forward like at least from next two, three quarters what kind of feelers you are getting from the market on sustainability of this business?

Dinesh Nolkha: First of all spreads as I just explained in my last question that the spreads were in the range of about around Rs.120 a kg which was there in the last quarter similar is maintained in this quarter as well however going forward.

Manoj Baheti: Dinesh Ji what is this Rs.120?

Dinesh Nolkha: Difference between the net raw cotton versus the yarn price. This is the spread which we are normally enjoying at this point of time and that is continued in Q3 but the raw material prices have run up very sharply so till now it has been absorbed now and if t further prices are increased, how it is being consumed in the downstream industry that is going to be seen.

Manoj Baheti: Got it. Thank you for answering my question.

Moderator: Thank you. The next question is from the line of Prerna Jhunjhunwala from B&K Securities. Please go ahead.

Prerna Jhunjhunwala: Congratulations Sir on a very strong set of numbers. Sir I just wanted to understand how the demand is spanning across segments for example apparel versus home textiles and how are the pass on in the yarn prices is it favorable or infavorable in various segments just to help us understand how the demand is spanning out given the price pressures even in our consumer segment and how our margins can span out going forward given changes in demand going forward?

Dinesh Nolkha: First of all as we had said there was very good demand for the home textile due to the COVID impact initially and later on the economies opening up, home textile business remained very, very strong and it continues to remain strong, of course the pricing policies in the home textile segment is for a slightly longer period so if we start from the next cotton season, normally we have two price increases January to June and July to December so next cotton season we are looking that most of our customers would be able to pass on the increase in the raw cotton prices just so this is not a one country or a one geographical area phenomena this is across the board across all countries so we expect that this increase will be passed on in the home textile. In the apparel business the demand was good in the first six or seven months of this financial year and then it picked up very sharply in last one-and-a-half to two months and we are seeing it with the opening up of our economy and retails have also started to open, we have very good demand at the moment for acquiring business as well and we are seeing that people have started to go to office and casuals and formals have come back in the business, schools have started to open so we expect a very good demand coming in forward and the prices are getting passed on to the customers because there is not much of the good prices.

Prerna Jhunjhunwala: So that means the barring inventory gains on some part of the margins rest of all should be sustained for good time or given the demand remaining strong and even the supply in the yarn business is not adding up to the extent required for meaningful time from here ,is my statement valid?

Dinesh Nolkha: First of all the meaningful capacities definitely not getting added up so that is very right and since we are seeing a good demand in textile industry the prices should be passed on but just to the volatility of basic raw material since it is volatile and we see volatility in terms of prices then there is always a sentiment dampener except that phenomenon I think if the prices remain stable or maybe with small variations we should expect that this kind of prices should be sustainable.

Prerna Jhunjhunwala: Sir my second question was on capex you have pointed out as of now things are on drawing board but should we expect the capex coming in the fabric business largely because you are reaching almost full capacity utilization there and if we in the smallest part of the business at least fabric expansion should be on the card going forward?

Dinesh Nolkha: Yes, of course for us even spinning business we are utilizing fully and we are not catering to the domestic market but that is also a business where we need to grow, since we are utilizing most of the capacity we need to look at all of the products holistically and not for small period of time we need to look at a longer period of timeframe when we will go for an expansion the kind of product if we want to manufacture horizontally whatever the demand scenario going forward so we will consider all those aspects and accordingly execute our plan.

Prerna Jhunjhunwala: Because our cash flows are very strong there and that can accommodate a very good expansion plan but I think this is on drawing board so that was a minimum thing that I was expecting that to check at least the fabric is what something we should expect even if spinning obviously is your core product so which time it can expand and also any call on your procurement strategy this year given the volatility in cotton prices?

Dinesh Nolkha: Good that you asked this thing this is the most essential part of the strategy this year. As you all know our strategy has been to not built up extraordinary stocks until and unless we see the very strong demand of our products. In next six or 12 months I think still we are seeing that these prices are getting established so we will first evaluate for the next two months to see how the prices behave going forward and till what stage it is getting passed on to whether this is getting passed on to the ultimate consumer or not and then we will take a call about the stocking policy but we are not going for any huge pileup of inventory at this point of time.

Prerna Jhunjhunwala: Thank you Sir. All the best for a great year going ahead.

Moderator: Thank you. The next question is from the line of Manish Sonchale from Motilal Oswal. Please go ahead.

Manish Sonthalia: Excellent results congratulations. Just one question based on your spindle capacity what is the production in tons per month?

Dinesh Nolkha: Our capacity is about 75000 tons per annum which turns out to be about 6200 tons per month.

Manish Sonthalia: Thank you that is all from me.

Moderator: Thank you. The next question is from the line of Navneet Bhaiya, Individual Investor. Please go ahead.

Navneet Bhaiya: You mentioned that the demand environment is pretty strong can you give us some more details about the industry wise supply scenario what is the current utilization and how much new capacities are coming up in the next year or so?

Dinesh Nolkha: First of all as far as spinning is concerned we are seeing that thecurrent utilization is now reaching its peak already most of the capacities are getting utilized, At this kind of margin level normally this happens and with lockdowns lifted all around the country we have seen most of the capacity on-stream at the moment; however, the demand is aided by the very good traction in the exports and the export numbers are also increasing month-on-month so basically now cotton yarn exports is in the range of about 110 million kg per month, we used to have 1000 million kgs exports every year now this is about 1400 to 1500 million kgs in this financial year so demand is very strong. In the domestic side we have seen basically weaving and knitting segment is now coming back into the full operation and that is a very good sign since lot of small weavers and knitters were not in operation as they were scared of the third wave so that capacity was not getting fully utilized, now however we are seeing the new capacity is getting fully utilized and domestic market is looking pretty good at this point of time. Now going forward spinning capacity addition we are not seeing much capacity addition at this point of time very limited capacity addition is happening at the moment in the industry but most of the bigger players are now planning investments and we see that by the end of FY2023 or in early part of FY2024 new capacities will be on the stream.

Navneet Bhaiya: So it takes about two years to set up a new capacity?

Dinesh Nolkha: Yes, with the kind of present deliveries of the equipments and disruptions in the machinery segment it is the minimum time to set up now and if the Greenfield project is there then minimum two years.

Navneet Bhaiya: When you said high utilization in the spinning segment or in the cotton yarn segment it would be upwards of 90% right?

Dinesh Nolkha: Yes.

Navneet Bhaiya: So till end of 2023 or early 2024 when these new capacities come up the utilization level can fairly be expected to be in the higher range only?

Dinesh Nolkha: Of course.

Navneet Bhaiya: Got it thank you so much.

Moderator: Thank you. The next question is from the line of Ashok Kumar, Individual Investor. Please go ahead.

Ashok Kumar: I have two questions, one is regarding as you mentioned that we have net margin of around Rs.120 yarn net margin but in terms of percentage if you see if the cotton price has gone up by 25%, 30% so unless we increase this net margin on per kilo yarn our net margin percentage will go down so are we looking at this direction like our net margin percentage will be maintained?

Dinesh Nolkha: You are very right as the base price increases and the per kg margin remaining same the margin percentage will definitely come down but ultimately consequently if you see from the view of the achieved numbers they remain same.

Ashok Kumar: Yes, when you say that the market always look for higher and the company decides market discount always so we are looking that our company should become like for example billion dollar company and secondly that like as we mentioned that we have almost utilized our existing capacity and we are still on the drawing board and it will take time, so what efforts are we taking to increase the value addition in terms of getting the higher realizations. This can be done either by selling high margin product or by selling to high margin generating customers for the country so which segment are we targeting?

Dinesh Nolkha: Thank you very much for your wishes. As we also wish for that and that is our endeavor as well. However we need to look at the whole system and we are always there to see that we improve upon our margin so that is always a endeavor of the management you can also see that our cost in absolute terms are going down in fact if you see our power cost our wages cost then even with increase in the overall production the overall sales value still going down only so we are having complete cost control so that is one of the areas where we are focusing even in such inflationary time. Secondly definitely we are trying to go for more and more value addition and accordingly we are focusing on various value added products like we are seeing that the sustainable products are in great demand and are also touching good prices so we are working on that area, also we are looking at the fashion segment where the realizations are on a higher side so there also we are focusing plus we are also looking for better higher kind of products where the per unit realizations are better so that focus will continue to maintain.

Ashok Kumar: What about high margin?

Dinesh Nolkha: Yes, of course that is also a part of the strategy to go for as I said higher value products to higher value added customers so definitely we are getting accreditations from various brands on a consistent basis and that is a continuous strategy for us especially for our fabric division. So we are getting the accreditations from various customers all around the world and that is a continuous process for us.

Ashok Kumar: Will we get some new accreditation during Q2?

Dinesh Nolkha: Yes, we also got few accreditations during the Q2 as well.

Ashok Kumar: When you mentioned the fabric, fabric are we B2B or B2C Do we have our own brand also?

Dinesh Nolkha: We are not having our brand it is a B2B.

Ashok Kumar: Yesterday we heard about some of the business growth so it will be not to the brand that time. The other important question is finance cost, finance cost has not significantly come down if we compare H1 to H1 of the last year so it is hardly 5.4% or something which is very negligible and now considering that the finance cost in the market is significantly down to around 4% and number two now this quarter the company has posted a pent up demand it is very good year so what plan the management has to rerating of the company so that the interest expense will reduce and what are the different strategies we have taken so that like we can retire some high cost term loan? (audio is not clear in this part)

Dinesh Nolkha: Of course this is a part which we have to continuously do it. As you rightly said that the cost substantially has now gone down from last quarter to this quarter. Now since our credit ratings have been changed and credit ratings are improving so already we are rated by CARE so already our new rate of interest will be applicable in this year itself in this particular quarter itself so definitely there will be a reduction in the rate of interest going forward that is a continuous process. As far as high debt cost is concerned we are already getting most of our term loan debt on the subsidized rate so our cost is already on the lower side and there we are confident to repay and substantial e debts have already been repaid, working capital also is going down so you will see a reduction in the cost in the coming quarter going forward in our interest cost. So it is also our endeavor to bring down the cost by using various tools so definitely that is a part of our continuous strategy which we definitely improve regularly.

Ashok Kumar: I have seen that we have repaid substantial amount of debt and I am just taking in terms of the fine line that what is the interest rate what we are suppose since we are always repaying the loans so definitely the same investment and the finance costs have to be a little down but what I am saying what efforts are we taking to get the debt reduction so **(inaudible) 51:**25 are we financing this high cost loan with a new loan , so the high cost loan is repaid so our finance cost which is high is reduced by the way of repaying the loan and the marginal discount available at the new rate by getting the loan its not much lower. There will be little reduction in the interest rate due to the new rating there wont be substantial reduction in the finance cost.

Dinesh Nolkha: I think you have given a lot of valuable inputs for us to ponder about definitely we always consider all those facts I will not be able to clearly give you our strategy over a conference call I hope you can understand it and if you need we will let you know separately about this how we are working on this, but definitely I can assure you that even we are also more worried about this part and looking into reduction of the interest.

Moderator: Thank you. Ladies and gentlemen due to time constraint we would be taking the last two questions. The next question is from the line of Pulkit Singhal from Dalmus Capital. Please go ahead.

Pulkit Singhal: Congrats on a good set of numbers. Sir my first question is on you mentioned about export demand being 40% higher and domestic demand recovering so clearly demand side things are getting a lot better and supply side for the industry is at least two years out in terms of addition of capacities so why would in such a scenario spreads not expand further rather than contract?

Dinesh Nolkha: That is why we are seeing that our margins are increasing quarter-on-quarter basis since last three, four quarters, only thing which is restricting us is how much our cost with inflation which is happening in various apart from the yarn business also in dyes, chemicals, other intermediates, coal cost, various other costs which is involved in the manufacturing of textiles is passed on to the consumer. How much is the consumer resistance towards this. So we are seeing that on the retail side also the prices recently does not declare but all the manufacturers are increasing their prices across board and same if we see the increase happening going forward then definitely further margin expansion is always possible.

Pulkit Singhal: I am just trying to understand the elasticity of demand if there is no supply and even if costs are higher by 10% what choice do they have,

DINESH NOLKHA ofcoursethe demand is elastic, we cannot say the demand is inelastic because the customers always have choice not to buy or postpone their purchases definitely that is there yes and lot of it depends on the GDP growth in our own country how the various segments of the people are behaving like if the rural growth is more then we see the downstream lower products having very good growth, how is the urban growth, so this depends of course there is demand elasticity involved we cannot say that there is no demand elasticity and whenever there is a substantial increase in price of any product we always see that normally people initially resist to buy see whether this is permanent or this is something which is temporary and then go for the major buy so always you have phases of such kind happening over a period of time

PULKIT SINGHAL lastly in terms of supply increases as you might have seen in the past cycle supply comes up fast if there is a favorable margin scenario now when you look at this cycle one reason you mentioned for delayed supply was availability of machinery itself due to semiconductor issues which seems like a very peculiar issue for this cycle, but what Else is different in the sense that the availability of finance is that more of an issue in this cycle and or is there also an element that the players I mean the larger players also have been helping to increase supply because we were not sure how long this situation would last so I am just trying to understand what are the various reasons apart from machinery availability to our industry level because of which supply may not increase as much?

Dinesh Nolkha: First of all if we compare this cycle with the last two cycles which we have seen first is in the last two cycles the growth in the industry was fueled by the subsidy which the central government was giving or the state government was giving so the initial capacity came up because there was a substantial interest subsidy or there was a certain incentive to setup the manufacturing factories so that was the initial premise on which various factories or various capacities in the spinning has come in, also those capacities which have come in which were not of economic price for some time and even the smaller capacities were on board because lot of bank financing was available. Now this time the difference we are seeing is that most of the capacity expansion is coming on the basis of the demand which we are seeing first not based on any incentive. Secondly most of the existing players who are having sound financial numbers are able to get the expansions done so it is more of a Brownfield expansion and existing players adding the capacity so definitely existing players are adding to their capacity going forward, but there are also measures since we have lot of capacities come in and the margins come down so they are measured in the increasing capacity.

Pulkit Singhal: Got it Sir thank you.

Moderator: Thank you. We take the last question from the line of Ajit, an Individual Investor. Please go ahead.

Ajit: Good evening to the management and thank you for including my question. Sir I would like to quote a media report so I am not sure about its correctness this is about our company bidding for the spinning assets of Sintex Industries under NCLT so first of all I would just ask you to confirm whether that is a valid report and my question is, is this just about the management trying to test the waters or is the management sending a signal that they are open to inorganic acquisitions in a way to expand?

Dinesh Nolkha: We are seeing a very strong demand in our capex so we are definitely open to any inorganic growth prospects, definitely we are open to that.

Ajit: Sir in one of your past conference call maybe one or two quarters ago you had mentioned one of the side effects of this pandemic was that a lot of unorganized capacities had closed down maybe 5% to 7% so would you be looking at some local capacities because Bhilwara itself is considered as the spinning capital of the country so would there be opportunities that would come around your area that you may in a very short notice be able to acquire and augment your capacity?

Dinesh Nolkha: We are fortunate that no unit in Rajasthan has gone to NCLT or has closed down so frankly that opportunity does not exist in Rajasthan at the moment so at least in Bhilwara I would say where we have placed out. I have clearly mentioned that we are not looking for very small capacity also that it will suit our philosophy of economic prices and that is there we are going to look at. All these capacities which have closed down are still not able to start are the ones which are not economically manageable I think the older machines, they are consuming more power, so power cost will consistently remain high because of various technological disadvantages.

Ajit: Sir this would be my last question I understand we maybe overshooting the time my last question is nowadays there are lot of media reports about awareness about wastage in textile industry there is some concept called as I was reading circular apparel innovation or maybe I think it refers to some kind of recycling of used apparels or used textiles so broadly it was mentioned that this comes under the ESG norms and we know that the international players take these kind of norms very seriously so do you get any sense that in the future going forward this would mean some very strict compliance standards for supplier companies like you which are very early in the supply chain any effect you can see of this in the near future?

Dinesh Nolkha: First of all already the brands are looking into our ESG philosophies and ESG compliances we are already compliant on many, many fronts that is one of the facts which is also sustainable Fibers like organic cotton, various initiatives of trade rate and others. So on the power side we are having Solar capacities, on the water side lot of recycling of the water is happening so already we are on that path of maintaining those standards so we do not see any challenge on that front in fact that could come back so that is something which we have already complied with ahead of various other competitors of ours.

Ajit: Okay Sir thank you for taking all questions patiently and wish you all the best.

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

Awanish Chandra: Congratulations on a continued strong performance since we are hitting the out of time so just one quick question let us say we finalized some plans some capex plan in two, three months and we start acting execution on maybe April onwards can that something come towards the end of FY2023 is there any possibility in any segment?

Dinesh Nolkha: Definitely Awanish it is our endeavor to bring something on board in next financial year we will definitely track financing for the existing business that will be definitely possible and we look forward but I cannot commit on that part that we will definitely have because we have to look at the aspects of the delivery of the equipment as well as the availability of various other regulatory approval.

Awanish Chandra: Okay Sir thank you very much Dinesh Sir and Maheshwari Sir for spending your valuable time and providing us the opportunity to host your call.

Dinesh Nolkha: Thank you Sir and I would like to thank all the participants who are here and sharing their valuable thoughts. I hope we have been able to answer all the questions satisfactorily; however, should any other further clarifications would be required or you would like to know more about our company feel free to contact us or our investment relations advisors. So thank you once again for taking out time and join us in the call.

Moderator: Thank you very much. On behalf of SMIFS Limited we conclude today’s conference. Thank you all for joining, you may now disconnect your lines.