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**BSE Ltd.**
PhirozeJeejeebhoy Towers
Dalal Street
**Mumbai – 400 001**

**Company Code – 532698**

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

**Sub. : Transcript of Analyst/Investor Earnings Call held on 03.02.2023**

Dear Sir/Madam,

Pursuant to regulations 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find attached transcript of the Company's Analyst/ investor Call held on February 03, 2023 on Operational and Financial Performance of the Company for the Quarter and Nine months ended 31st December, 2022. The same is also available on the website of the Company i.e. www.nitinspinners.com.

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

Sudhir Kumar Garg
Digitally signed by Sudhir Kumar Garg
Date: 2023.02.07 17:25:46 +05'30'

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

# "Nitin Spinners Limited

# Q3 FY '23 Post-Results Conference Call"

# February 03, 2023

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 04th February 2023 will prevail

**MANAGEMENT:** **MR. P MAHESHWARI – CHIEF FINANCIAL OFFICER – NITIN SPINNERS LIMITED**
**MR. DINESH NOLKHA – PROMOTER, MANAGING DIRECTOR – NITIN SPINNERS LIMITED**

**MODERATOR:** **MR. AWANISH CHANDRA –SMIFS LIMITED**

**Moderator:** Ladies and gentlemen, good day. Welcome to Nitin Spinners Limited Q3 FY23 Post-Results Conference Call, hosted by SMIFS Limited. As a reminder, all participant lines will be in the listen only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing a star, then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Awanish Chandra. Thank you and over to you of Awanish.

**Awanish Chandra:** Thank you, Zico. Good afternoon, everyone. On behalf of SMIFS Limited, I welcome you all to Q3 FY '23 Conference Call of Nitin Spinners Limited. We are pleased to host the top management of the company.

Today, we have with us Mr. Dinesh Nolkha, Promoter and Managing Director of the company. And Mr. P. Maheshwari, CFO of the company. We will start the call with the initial commentary on results then we will open the floor for question-and-answer.

Now I will hand over the call to Mr. P. Maheshwari, CFO of the company. Over to you, sir.

**P. Maheshwari:** Thank you**,** Awanish ji. Good afternoon, and warm welcome to all the participants to the Investor Call post our Third Quarter and nine months FY '23 results. I hope all of you must have had a chance to look at our investor presentation that is uploaded on Company's website as well as the stock exchanges.

Before, Shri Dinesh ji elaborate on present industry and business scenario, I am giving the brief highlights for the quarter and nine months ended 31, December 2022.

Revenues for Q3 '23 was INR 537.20 crores against INR 505.88 crores in Q2, FY '23 that is an increase of 6.2% on a quarter-on-quarter basis. However, on a year-on-year basis, revenue declined from INR 704.94 crores to five INR 537.20 crores.

Cumulative nine months revenue for the current year is INR 1,752 crores against last year nine months revenue of INR 1,925 crores.

Export for the quarter was 52% of total revenue against 48% in Q2 '23.

EBITDA for the quarter stood at INR 60.13 crores as compared to the INR 57 crores in Q2, FY '23 and INR 178.11 crores in Q3 FY '22. Cumulative EBITDA for nine months period is INR 226.10 crores against INR 484.17 crores in last year nine months.

EBITDA margin for current quarter is 11.19% as against last quarter margins of 11.27% and Q3 '22 margins of 25.27%. We have reported PAT of INR 31.58 crores during the quarter as against INR 29.11 crores in Q2 '23 and INR 93.26 crores in Q3 '22. Cumulative PAT for nine months is INR 126.27 crores against last year same period INR 240.67 crores. EPS and cash EPS for the quarter is INR 5.62 and INR 9.50 per share respectively for the quarter and cumulative for nine months. EPS is INR 22.46 and cash EPS is INR 34.11 respectively.

That is all from my side. I now request Shri Dinesh ji to apprise about the industry and business scenario.

**Dinesh Nolkha:** Good afternoon, everyone, and thank you for joining us for this earning call. Let me brief you with the industry and business scenario first. Indian cotton textile industry during the last six months has faced multiple challenges, especially with regard to, number one, very high price volatility and the higher absolute prices of raw materials.

Secondly, relative price difference compared to the international markets and resulting in competitive disadvantage to the most of the Indian textile players. And thirdly, a demand slowdown due to geopolitical tensions and inflation in European and US economies. Out of these three issues, cotton prices have already started to decline in domestic as well as international markets, and volatility has reduced to a large extent in last 1.5 months, two months.

The increase in cotton production in the current season will also normalize the supply-side situation for all the Indian textile players. Domestic cotton prices have already corrected by about 40% from peak to INR 63,000 a candy. The disparity between the domestic and international cotton prices has also substantially reduced. As a result of this, the utilization in the spinning industry has now been restored to a near normalcy level. Demand situation has also started to improve due to increased retail consumption and reduced inventories in the downstream channels. So overall, there is an improvement in the situation which was there since last six months, in the last 1.5 months, two months-time.

Now coming to company's performance during the quarter, utilization levels are coming back to normal during the quarter, last quarter, average utilization of the spinning was about 80% against 65% in the previous quarter. There has been a sharp reduction in the yarn price as the market have discounted anticipated raw material price reduction.

Due to this volatility and weak export demand, the margins continue to remain under pressure. However, the top line increased by 6% due to increase in the quantity. Further, the woven fabric division continue to run an optimal capacity utilization, which help us to mitigate the challenges in the spinning division.

Demand from export has started to pick up. We have seen uptick in export market majorly from countries like China, Europe and Latin American countries. however, demand of knitted fabrics and ralated yarns for knitting is still to pick up. The company continues to add its share in the value-added segment and penetrating more in the domestic markets.

Regarding the capex, we are on track with the execution and expect to commence our project within the timeline envisaged. We are determined to have a very efficient focus and superior product quality to our customers.

At this point of time, this is all from my side, and I welcome now participants to for any questions if they have. So we can accordingly discuss the same.

**Moderator:** Our first question is from the line of Abhineet Anand with Emkay Global.

**Abhineet Anand**: First of all, if you can help us with the average yarn price and spread for 3Q?

**Dinesh Nolkha:** Average yarn price for Q3 was about INR 303.

**Abhineet Anand**: And spread sir?

**Dinesh Nolkha** Spread basically, average raw material cost for us during the last quarter was about INR 400. So that was per kg and then we can work out the yields an accordingly.

**Abhineet Anand:** And second, I want to understand what is the inventory level currently with us?

**Dinesh Nolkha:** At the end of Q3, it was about one month. Could be better than this at the point of time.

**Abhineet Anand:** So, I mean, just trying to understand, inventory being around one months only. So, are you expecting cotton to further fall from here or what is a typical view in the market around that?

**Dinesh Nolkha t:** First of all, cotton prices. I think, have fallen from substantially from the peak, and we are not expecting it to go down substantially down from there. Only thing which we are waiting was, as you all know, there is a 11% duty customs duty on the imported material. So because of this, we are seeing the prices in India also getting elevated. So we had made a lot of representations with the government of India to remove this duty, but nothing has come up in the budget. And then now we have to build up our inventory. So we were waiting for this so that prices could be become more reasonable. So now we will have to go in for looking into the season coming up. We will have to build up the inventories for.

**Abhineet Anand:** But as some of the reports are suggesting that the amount of cotton that is needed or typically at the end of say, from October to December on a Y-o-Y basis, the amount of cotton that has come up from the production or the harvest has been less and some holding by farmers have been done. Is that right and how does this impact?

**Dinesh Nolkha:** Yes, this is true. This is a true picture. Farmers are holding to get better prices. Already they are getting nearly 35% to 40% more than the Minimum Support Prices. But still, they want more because the last year they got a reasonably good price. So but they have to also understand this fact that the international cotton prices have come down substantially. They are nearly at the level of nearly half the level what it was. There is in India it is only down by about the Kapas prices are down by about 25%, 30%.

So this is something which they will have to understand and ultimately bring the cotton. Cotton is a commodity which cannot be stored for very long. Of course, during winter season it is quite comfortable for them to hold their stock. But as soon as the summer comes up, they will have to bring it to the ginneries and dispose it off.

So, we are expecting that the arrivals, they have already improved since after 14th of January, they have already improved what it was there in the last particular quarter. It has already improved and it is going to improve going further as well.

**Abhineet Anand:** And last one from me. You did touch upon the demand side. You indicated there is some improvement on the demand side, if you can just highlight, our retailers starting to increase their inventory or how is it on the inventory of retailer side?

**Dinesh Nolkha:** The inventory since last six month to eight months, from May, June onwards till November, December till November, I would say, most of the retailers were slightly hesitant to place the orders as they were looking at when they were looking at the raw material side, they were seeing that the prices are going down. Also, they were also having a fear in their mind that because of the war in the Ukraine, there is a lot of effect on the sale side. So looking into both factors also in US because of US recession means expected recession. They wanted that the inventory should be gone down.

So, they were not placing the orders. But post the Christmas sale, most of the inventories, most of the retailers are already coming back to for the placement of the orders. Recently, Home Textile, they've also got very good orders in the fairs and exhibitions, which has happened in January this year. And also on the apparel side, the response is looking good. So, this is improving. Domestic sales is already doing well. The knit segment, which is more of a summer kind of product. It's still to pick up. This is what we observe from the market.

**Moderator:** Our next question is from the line of Kirthi Jain from Canara, HSBC.

**Kirthi Jain:** Sir, my question is with regard to the utilization level, are we now come to the full utilization level or what is the situation currently?

**-Dinesh Nolkha:** Currently, we are running at about.90% utilization levels in our spinning business. For weaving already, we are running at full utilization. And in our knitting business, we are still at about 40%, 45% levels.

**Kirthi Jain:** Sir, we have earlier guidance for our aspirational margin band of 18% to 20%. When will we strive to achieve our aspirational margin band sir?

**Management:** We had guided for 16% to 20%. And it is our endeavour always to reach that level but the market forces and the prevailing conditions all around us that restricts us from reaching this level. So it is our endeavour to reach there once there is a normalization. As you can see, as Maheshwari ji pointed out, that export is only now 52%, which used to be 65%. This is reflecting the slow demand in the international market as well. So once everything reaches normalcy, definitely margins will also normalize.

**Kirthi Jain:** Any new initiatives which you would like to highlight with regards to profitability improvement or anything you are taking?

**Management:** We are taking lot of small-small initiatives on the cost side. We are trying to make ourselves more cost efficient. Also we are trying to as I just know you ask that how much utilization we are having? So we are trying to see that the products which are having very low margins, we are not trying to produce them. This is one of the things which we are doing. The low margin products, we are not trying to increase the capacity on that side. Also trying to see where we can add value as the cost efficiency side, we are adding a lot of solar power. This is already built up in our new project, which is coming up. So that side also energy efficiency, we are doing it.

So a lot of efforts are going on. I cannot quantify them all or cannot name them, but a lot of efforts towards the cost efficiency is already on. On the sale side, yet, products, we are trying to work on various products. Already our expansion is coming up, where a lot of new products we will be launched it. So that should help us.

**Moderator:** Our next question is from the line of Siddhanth Dand with Goodwill.

**Siddhanth Dand:** Yesterday, during the budget, there was some statement regarding extra-long staple cotton. So, could you just. Comment something on that policy and how much of a share of our business is extra long staple cotton?

**Management:** Actually, what they have done is they have tried to -- there was one HS code for cotton imports. Now, what they have done is they made five HS codes so that the extra-long staple could be quantified in separate HS code. And going forward, we assume that the duty will be removed on that part because India is not producing that extra-long staple cotton.

So that is one of the issues which was also discussed in detail that the cotton which we are not producing, at least there should be no duty on those that kind of cotton. So now we are expecting, they have already announced that this will be effective from 1st of May of '23. So we expect that by that time, they will let us know the new duty structure also on those kind of cotton

**Siddhanth Dand:** But it seems unlikely that they would increase the duty on that particular cotton?

**Management:** No. In fact, they will remove it. Because that is not produced in India. This is the raw material. This is raw material for the all of the textile industries. A lot of garments, a lot of other home textiles is going in. Made-ups are also being made out of the extra long staple cotton. Its, a long staple cotton which is compulsorily being imported from various countries like in Europe. So to remove that factor that they are trying to do that. And as far as we are concerned, we are about 8% to 10% of our business is in the segment. So we will be definitely having some advantage when that this kind of notification comes in.

**Siddhanth Dand:** And can our existing capacity for domestic cotton be used for pima cotton? Or does it need special equipment like extra-long staple cotton?

**Management:** It means sometimes, some special things which we are already adding the capacity. It's a niche market and it means a lot of different kind of capabilities on side of production as well as marketing. So we are trying to -- we already have new capacity coming in, which is also suitable for this type of cotton.

**Moderator:** Next question is from the line of Nikhil Agrawal with VT Capital.

**Nikhil Agrawal:** So, a couple of general questions. In the budget that was announced on the 1st, we saw that customs duty on certain yarn and certain woven fabric has been reduced. So like do you expect the imports of yarn coming in and thereby hurting your sales or anything as such in next year? Any concern?

**Dinesh Nolkha-:** There is no change in custom duties of textiles and agriculture. This was the first announcement which the FM made and then she announced that we are reducing the duty on other things. So there is no change in duty structure for the textiles.

**Nikhil Agrawal:** So I just wanted to understand, from an industry point of view, why do we look at exports as the main trigger? Is the domestic market not larger enough or is it because of import of governments in the domestic market that it's like we are not able to make a market out here and we depend on exports.

**Dinesh Nolkha:** Basically. In all the textile segments, let it be. Starting from the fiber itself, even the man-made fiber, even the natural fiber, cotton fiber spinning to weaving or knitting as well as to garment do, we have excess capacity, which is being put up for the export market, for the developed markets and we have been traditionally doing this not from now, but from years now from 20, 25, 30 years, we have been exporting to Europe and America to very to their various brands and the capacity has been designed to put according to that. So that is why we are focusing on the exports market.

**Nikhil Agrawal:** And so just one last question. On the knitting segment, what was the reason for the capacity utilizations for the lower capacity utilizations?

**Dinesh Nolkha:** Basically, the demand has been very subdued in the knitting segment. What we had seen is during the COVID times, the knitting was doing extremely well for one and a half year, I must say, from one half to nearly two years from April, May of '20 to April, May of '22 to the knitting demand was extraordinary, which we had also not seen before. So I think a lot of overstocking was done, and that is getting destocked as the summer approaches, we should be reaching the normalized level. So in particular, the knitting segment is not been doing. Knitting garment is not doing well. So utilization to that extent was also affected.

**Nikhil Agrawal:** And so you already started seeing improved utilization currently, in the knitting segment?

**Dinesh Nolkha:** Yes.

**Moderator:** Our next question is from the line of Muthukumar with Fidelity Venture.

**Muthukumar:** So what are the steps have been taken to tackle cotton price volatility? And when you can expect that demand momentum can picks up?

**Dinesh Nolkha:** First of all, as regarding the volatility is concerned, this is something which is beyond our control. We are only trying to see that, we are not speculating on the cotton part. That is all we try to manage. Because of price increases, you get advantages and when price sharply decreases you are at a disadvantage because ultimately you have to produce and there is a time lag between the actual procurement and the actual sales. So we try to reduce this timeline to the minimum possible to mitigate this kind of volatility. That is one part.

Second is, as you say, demand is definitely as I informed you in my opening remark. The demand is now we are seeing that the demand is improving. It was very-very low during last five, six months due to which the utilization of the spinning industries, not only in India, but also all around the world was about 55% to 60% only and not even in India, but all the competing countries as well so now that is all coming back to normalcy levels.

**Muthukumar:** In the preceding session, what is your intent to focus more on export market or on domestic markets?

**Dinesh Nolkha:** We are trying to penetrate on the domestic market. So we will continue to focus that side. We are in an expansion mode. So we will try to retain this market, domestic market, which we have grown over last six months and then definitely export market which we have lost, we will try to regain that as well since we will be increasing our capacities. So the focus will be definitely on the both sides.

**Muthukumar:** And the last question is, could you please update on next two to three years top line and the EBITDA margin or what is the expected?

**Dinesh Nolkha:** We are not giving any guidelines for the EBITA margin. Normally, having already saying that normalized margin for us, company like us, with the kind of product mix which we have, should be in the range of 16% to 20%, that is a normalized margin level. And we still stay on that path. As far as top line is concerned, it is definitely, as we have already highlighted, that we are adding capacity to the tune of about 40%. So that will come in and the top line will be effect of this additional capacity along with the prices. Then the prices are very volatile. If you would have asked me this question last year, I would have told maybe will touch INR 4000 crores. If you ask me this year, it will be much lesser. So it depends on all the calculations of the prices in the raw materials. So definitely, the capacity is increasing by 40% that I can hope for.

**Moderator:** Our next question is from the line of Kaushal Kedia with Wallfort PMS.

**Kaushal Kedia:** So firstly, congratulations on such a good set of numbers in a very tough environment. What I wanted to understand was, how come your volumes have grown in such a tough environment?

**Dinesh Nolkha:** no the volume has not grown over last year, year-on-year the volumes not are lesser. Much lesser

**Kaushal Kedia:** And when you are saying that inventories are at lower levels with reatilers in Europe and the US, do you have data on this?

**Dinesh Nolkha:** I am not saying that the inventories are on a lower level. I'm saying that most of the customers who have not bought have also sold. If you see the sale numbers of most of the brands from Europe as well as from the US, you see that their sales have been robust, whereas the sale is down only in some cases, it is increased and in some cases it is down by minuscule 2% to 5%. So, whereas their sourcing has been reduced by 35% to 40%. So automatically that sale has come. So basically, their inventories have come down. This is reflected to us, but because of the demand which is coming from the brands. So, it is not there is no data relevant information on this part.

**Kaushal Kedia:** What is the borrowing standard currently? Because last time you guided that we'll be at about INR 900 some odd crores by 31, March ‘23. So currently, what is the borrowing?

**Dinesh Nolkha:** As on 31, December, the total borrowing was around INR 700 crores.

**Kaushal Kedia:** And what is the cost of debt currently? Because you had said last time it was 4.5 percent, but I think it must have gone up slightly.

**Dinesh Nolkha:** At the moment, it is more or less at the same level, for us.

**Kaushal Kedia:** But how is that possible? Because there is an interest rate is across the board in everywhere

**Dinesh Nolkha:** Most of our term loan interest have been fixed. By May, June for next one year. So that part is already fixed because they are on a one-year cycle. So, there is no cost increase. And on the working capital side, there is a marginal increase of about half a percent or something for us. So that is still manageable. Already we have negotiated a lower interest rate and then it has increased by 0.5% to 2.75%. So more or less the cost remains same for us, at least for this financial year.

**Kaushal Kedia:** So out of the INR 700 crores of borrowings, how much is your working capital?

**Dinesh Nolkha:** Working capital is about INR 200 odd crores. And the new debt, which is already there, that is also about INR 75 crores.

**Kaushal Kedia:** Out of the INR 700 crores?

**Dinesh Nolkha:** Yes. This also includes a new debt as well.

**Kaushal Kedia:** This capacity utilization that you're saying 90%, 100% and 45% for spinning, weaving and knitting is for is currently for like quarter 4 currently or was it Q3?

**Dinesh Nolkha:** Q3, I have already we have clarified.. I'm not specified 100 % for -- any of the segment as such.

**Kaushal Kedia:** You just mentioned 90% is spinning and weaving is 100% almost it's full capacity?

**Dinesh Nolkha:** Weaving is full capacity, not 100%, 100%. Normally, you're not able to utilize.

**Kaushal Kedia:** Yes, above 95.

**Dinesh Nolkha:** Yes.

**Kaushal Kedia:** So, but this is for quarter 3 or quarter 4 currently

**Dinesh Nolkha:** Quarter 4.

**Kaushal Kedia:** This is ongoing quarter, right?

**Dinesh Nolkha:** Yes, ongoing quarter.

**Kaushal Kedia:** And last quarter, I'm assuming it was more or less in yarn. It was more or less 75% last quarter, right?

**Dinesh Nolkha:** It was 80%.

**Kaushal Kedia:** Utilization of 80%?

**Dinesh Nolkha:** Yes. We have also given this in the presentation as well as…

**Kaushal Kedia:** Presentations are easy to calculate. Correct.

**Moderator:** Sorry to interrupt. Ladies and gentlemen, Mr Kaushal Kedia, may we request you to re-join the question queue for a follow up question.

**Kaushal Kedia:** I just have one more question. Can I just go ahead? Please one more question.

**Dinesh Nolkha:** Yes please.

**Kaushal Kedia:** What is the average yarn realization currently that you're getting vis a vis the cotton rate compared to Q4?

**Dinesh Nolkha:** I can tell you for the last quarter, which is about INR 303.

**Kaushal Kedia:** Yes, that's what you mentioned but will it be okay if you share right now what is the ongoing average yarn realization?

**Dinesh Nolkha:** I am not able to share that information at this point of time.

**Moderator:** Our next question is from the line of Cheragh Sidhwa with ICICI Securities.

**Cheragh Sidhwa:** So, my question pertains to the yarn realizations. So, for the company, our yarn realizations are at around INR 303 per kg. But for the quarter, if I look at the average cost of 40 count yarn was close to around INR 310 per kg.

So historically, since the last three, four quarters, what we have seen is that, our average realization is generally 10% to 20% higher than the 40s count. So, shall we assume that this quarter we have sold kind of lower count yarn? Is that thinking, correct?

**Dinesh Nolkha:** Yes, that is right.

**Cheragh Sidhwa:** So that's why I say that's why our gross margins could have been much better if we would have maintained our product mix, what we had in the previous quarter.

**Dinesh Nolkha:** But then the volumes would have gone down.

**Cheragh Sidhwa:** And so the one month inventory, which we have currently in the books, is it what would be the costing of the cotton inventory? Would it be the current INR 170, INR 175 per kg or it will be the INR 200 per kg.

**Dinesh Nolkha:** No, Last quarter average was INR 200. Now it should be in the range of about INR 175 to INR 180 a kg.

**Cheragh Sidhwa:** And so, the spreads, if I look at the spreads, post-Q3 for Jan, Feb have the spreads kind of move upwards from your Q3 exit levels or is that a similar levels for the company as of now?

**Dinesh Nolkha:** It is for us, it is more or less at the similar level. Margins have not improved since the demand have improved a bit and the utilization improved, but margins have still not improved?

**Cheragh Sidhwa:** Because the yarn prices have much more corrected from your existing INR 303, what we had witnessed in Q3?

**Dinesh Nolkha:** Yes.

**Moderator:** Our next question is from of Akshay Kothari with Envision Capital.

**Akshay Kothari:** So what would be are assetturn in spinning, knitting and weaving?

**Dinesh Nolkha:** You're talking about the fixed asset turn or you're talking about the current asset turn?

**Akshay Kothari:** Yes Both, Because I think yes, both if you can give.

**Dinesh Nolkha:** At the consolidated level. On the fixed asset turn, it is about 1.4 for the fixed assets. Of course, it depends on the kind of raw cotton prices and the relevant yarn prices. But on an average basis, we consider 1.3 to 1.4 as the fixed asset turn.. And for current assets, it was very good last year because the inventory was lesser. So, it was about 3.4 level, 3.4 to 3.5. But normally in our industry, it is in the range of 2.5 to 3.

**Akshay Kothari:** And I guess in knitting, your asset turn would be more than weaving.

**Dinesh Nolkha:** Yes, normally it is for current assets because the cycle is smaller. So, the current value addition is also smaller and accordingly asset turn are better.

**Akshay Kothari:** And one more question, one last question. So, what I have been hearing on recent calls was that farmers are hoarding a lot of cotton and you also alluded to the same fact. So, this question generally comes in my mind that why don't companies like the Nitin Spinners and other bigger players, have some sort of backward integration on the farming side as well. Because government every time, depending on government to take action is also having a making a big disadvantage to us. So, what are impediments which stops us to go on some sort of backward integration on the farming side?

**Dinesh Nolkha:** Definitely. I completely agree with you. This thought also comes to our mind that, we should be also looking at these aspects and but the contract farming law, which was being tabled in the parliament and was also passed once and then taken back was one of the is the major one of the major impediments.

So, companies like us can venture into backward into farming on a contractual basis and can have an advantage on that side. So, but still the law has to be cleared on that part. So that is the one of the major hindrances which we have. Otherwise, the Land Ceiling Act and many other things comes into play, which is the laws of the land, does not allow us to do the same.

**Moderator:** Our next question is from the line of Mohit Khanna with Banyan Capital Advisors LLP.

**Mohit Khanna:** I have two set of questions. First one, China is opening up now and it is still facing a ban on mixed cotton in the US. What sort of opportunities does that open up for us as an Indian yarn manufacturers? Are you facing demand coming in from Vietnam or Bangladesh or Indian yarn at first? And secondly, what is your outlook for the next three, four quarters, especially in the

Indian side on mix, especially on the mix because we have seen that it is not currently going to a downturn after the COVID upturn. So, do you see any signs of revival over there?

**Dinesh Nolkha:** So, firstly. As a China is reopening and we are seeing that, a lot of demand coming up from the China itself. Since they have a lot of large, dedicated capacities for the brands in the US, in Europe, which is on the side of the dyeing, finishing and garmenting side. So that is one part of the business, where they want to keep their business running, which employs people. And accordingly, they will have to import more yarn from India.

So all the companies which are able to provide the complete traceability, in terms of use of cotton, the kind of and rest of the documentations, which is required by the US customs, those will be benefited. So definitely there is an advantage sale to US, for sale to China as well. And that we are seeing that partly it is coming back. That is one part.

Second part is regarding you can say about the demand from other countries. Some of the sales, which is being not getting fructified with China being sold into sold by India, Vietnam, Bangladesh and to some extent by Sri Lanka. So yes, demand from these countries is also coming. The demand was already there, but still, it is getting more and more improved as such .Secondly, regarding your question about. You asked about how we are going to see knit side. The knit side is definitely this is a unforeseen. We have not seen this kind of slow demand for knit product in last six years, I would say. This is the first time we have seen that, knitting production as well as the knitting yarn requirement has gone down substantially. This is partly due to the stocking effect or due to when the COVID was there a lot of stocking had happened in this part.

Secondly, also due to this, a low, let's say, low value product, and most of the retailers would like to exhaust these kinds of products, and they understand that these are easily replaceable and fast replacement is possible in this segment. Maybe that is one of the reasons where the procurement has slowed down in this segment. But this cannot remain like this for a very long period of time, and we expect that in another six months-time, this should come back to the normalcy levels.

China is one of the very big players in this segment. And if China comes back in a big way, then you should expect the knitting segment also to come back, in a reasonable manner.

**Mohit Khanna:** So just one small follow-up on the first part of the first question that you answered. So have you received because correct me if I'm wrong? My understanding is that the US brands actually tell the garment manufacturers from where they can source cotton because of the traceability issue.

So, have you seen qualifications having been won qualifications with such brands in recently? And if you could put in, you know, qualitative terms that the demand from China is up 5%,7% years or quarter on quarter or something like that, that would be helpful. Thank you so much.

**Dinesh Nolkha:** So first of all. Most of the brands, normally the bigger brands normally have the kind of in nomination kind of culture, where they approve the various backward suppliers. So, this has been there in the not today, but this has been there since last so many years. We are an approved vendor for many of the brands and most of the leading companies in India has approved, almost of the brands. So and also, they specify that you should not buy the yarns made out of these cottons. So, Xinjiang is banned. So that is one part. So that is very, very clearly specified.

In quantitative terms, as you ask China, if you see last two quarters from June to December, since then, the demand is now up by, I can say, easily doubled from that side. It was the demand in last six months was just minuscule from China because of COVID and many other issues. So, but that's that should not be made as a benchmark. We are yet to -- two years back. China used to be nearly the India used to export about 20 million kgs of yarn 20 million to 25 million kgs of yarn to China. But as in last six months, every month, we were not even doing three million kgs or four million kgs. Now we are, I think, back to about 12 to 15 million kgs. That is my approximate in last one and a half months.

**Moderator:** Our next question is from the line of Anik Mitra with Finarta.

**Anik Mitra:** Sir, you told, average yarn price in Q3 stood around INR 303 rupees. And sir, raw material price, you told that is around INR 200 rupees. Sir, like what is the normal spread of yarn and cotton?

**Dinesh Nolkha:** Means normal spread in terms of what? Basically, as I have been telling that it should be the difference should be about raw cotton price to the yarn price should be in the range of about INR 110 to INR 115 a kg. That is normally, that is a normal kind of spread that we have.

**Anik Mitra:** And sir, what is the current Indian cotton in terms of international cotton? Are we still above quoting above international cotton or it has been normalized already?

**Dinesh Nolkha:** No, we are still above the international prices. We are about 6% to 7% higher, 7% higher than the international price.

**Anik Mitra:** And sir, in terms of if you can throw some light in terms of your demand export market, in terms of your export market?

**Dinesh Nolkha:** Basically demand is. We have been exporting to more than 50 countries all around the world. We are exporting to all the continents and all the six continents. And demand has been normalized. We normally follow a policy where we try to see that we are very well distributed all around the world. So, in last six months, we thought that the demand from the US as well as from Europe and there is ancillary supply in countries have gone down substantially. So we the focus had to be done on the domestic market. Now as the things are normalizing, getting the demand is coming back from Europe as well as from the US. side and also from the ancillary countries, which are producing from them, like China, Vietnam and Bangladesh. So these are the kind of geographies, where the exports of yarn normally happen.

**Moderator:** Our next question is from of Falguni Dutta with Jet Age Securities Private Ltd.

**Falguni Dutta:** So I just have one basic question. When we calculate the cotton yarn spread, it won't be one kg of yarn less one kg of cotton, right. There would be some wastage. So we'll have to adjust for that?

**Dinesh Nolkha:** Of course we have to adjust for that.

**Falguni Dutta:** So how much of cotton would be needed for a kg of yarn, let's say?

**Dinesh Nolkha:** It depends a lot of it depends on the kind of product that you are making in the and the basket that you are making. But you can. For on a rough calculation basis, you should consider about 1.2 to 1.25 because there are various products which are being made There are kind of carded products, combed products, various different kind of products are being made. So on an average basis you should calculate at 1.20 to 1.25 levels, depending on the product mixes of different companies.

**Falguni Dutta:** 1.2 to 1.25.

**Dinesh Nolkha:** Yes.

**Falguni Dutta:** Sir, and one last question. What would what was the 30 count price for Q3?

**Dinesh Nolkha:** In the Q3, the average 30 count price was in the range of about INR 280 rupees to INR 285 rupees. That was the average level.

**Falguni Dutta:** And what would it be now?

**Dinesh Nolkha:** This is around INR 270 to INR 275.

**Moderator:** Our next question is from the line of Aditya Khetan with AK Capital.

**Aditya Khetan:** Sir, my question is on to the fabric capacity. Sir, you had earlier talked about the fabric capacity getting added by FY ‘23 end and spinning new capacity will come by Q2, FY ‘24. So are we on track on to the same business and some guidance on business from the new capacity if cotton price remains as it is?

**Dinesh Nolkha:** We will be. We are on track to add our fabric capacity by the end of. Already equipment have already come in and we are under erection in some of the machines. We are under trial. So we should be ready with our capacity by the end of this quarter for the weaving segment, also for our knitting segment as well. All the capacity utilization, there is place, but still the value addition is also going to happen there. So both these segments will be there by end of this quarter. Spinning as rightly said for Q2, we are heading in that direction itself. That is all, of course in the same direction.

**Aditya Khetan:** And guidance are on to the business like if the new capacity comes and if the cotton prices remains as it is and any guidance onto the numbers, if you can give out?

**Dinesh Nolkha:** So, at the same price level, we should be once our full capacity is there, we should be doing a monthly run rate of about INR 300 crores. So we are at the moment, our top line can be utilized fully. It's about around 210 crores. So it should be about INR 300 crores, once we fully all lines, fully increasing the capacity.

**Aditya Khetan:** And trial runs also they have been completed with the customer end with which capacity we will be adding, right now?

**Dinesh Nolkha:** That will be getting completed within the next two months' time.

**Aditya Khetan:** I joined the call a bit late, so I missed your initial remarks on to demand. But if you can highlight like how is the demand in the textiles now shaping up? And what trend we can take at least for the next two quarters right now? Are we witnessing the demand is going to stay stable or because of inventory destocking, we could see more pain. So how you see like demand at least for the next two quarters? Just I want to, for the short term.

**Dinesh Nolkha:** For the short term, the demand is we are seeing could definitely last two quarters, the demand was very subdued. It is improving. And most of the spinning capacity at least has come back to the normalized level of about 90%. So that is already spinning capacity all over India] utilization has improved. This itself signals a reasonable demand, but it is not yet to the old levels, which was there. We should expect that, if nothing major happens geopolitically, we should be back to the normal demand level and another six to nine month's time.

**Aditya Khetan:** Any guidance on the capex, sir?

**Dinesh Nolkha:** On the capex, we are on track with the execution and expect to commence the projects within the timelines and by fixed. Of course, there are challenges on that part, but at this point of time, everything is under control.

**Aditya Khetan:** The capex figure is, so number if you are giving, you can give?

**Dinesh Nolkha:** So we've already announced the capex of total INR 955 crores. So this was already announced, I think, nine months back itself and we are still on the same path.

**Moderator:** I would now like to hand the conference over to Mr. Awanish Chandra for closing comments. Over to you sir.

**Awanish Chandra:** Sir, Just one quick question. We are very strong on yarn export side. And now, we are increasing our capacity on the fabric side also. So how are our talks with new clients for fabric in the export market?

**Dinesh Nolkha:** Awanish ji, last quarter, we have been able to do nearly 25% of our sales of the fabrics into the export market. So that is a reasonable achievement considering that we are a relatively new player in this field. We are focusing on the export market on a consistent basis and we have got approval from many brands internationally as well. And with the increasing capacity, definitely our focus for the increased capacity will be for the export market. And we are quite hopeful about that.

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

**Dinesh Nolkha:** First of all, I would like to thank everyone for taking out time and joining us for the con call. I hope we have been able to address all your queries. I also thank SMIFS and Awanish ji for hosting the call for us and for any other information kindly get in touch with our investor relationship advisors or finance team and thank you all once again and wish you well. Thank you.

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