REF: NSL/SG/2022-23/
Date : 11.05.2023

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 08.05.2023

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 May 08, 2023 on Operational and Financial Performance of the Company for the Quarter and Year ended 31st March, 2023. 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: 2023.05.11 15:01:04 +05'30'

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

“Nitin Spinners Limited

Q4 FY '23 Post-Results Conference Call”

May 08, 2023

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 08th May 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 and welcome to Nitin Spinner's Limited Q4 FY '23 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 star, then zero on a touchstone phone. Please note that this conference is being recorded.

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

Awanish Chandra: Thank you Zico. Good evening everyone. On behalf of SMIFS Limited, I welcome you all to Q4 FY '23 and full year FY '23 conference call of Nitin Spinner's 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 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. Thank you Awanishji. Good afternoon and warm welcome to all the participants to this Investors Call Fourth Quarter FY '23 and full year 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 stock exchanges. Before Dinesh ji elaborate on present industry and business scenario and give below brief highlight for the quarter and year ended 31, March 2023.

Revenue for Q4 '23 was INR 654.80 crores against INR 537.20 crores in December 22 quarter that is increase of 21.9% on Q-on-Q basis. On year-on-year basis, revenue declined by 15% from INR769.06 crores to INR654.80 crores.

Full year revenue for the current year is INR 2,406.71 crores against last year revenue of INR 2692.32 crores that is decline of 10.6% mainly due to shortfall in yarn production.

Export for the quarter was 62% of total revenue against 52% in Q3 '23, export for the full year was 56% of revenue against last year 72%.

EBITDA for the quarter stood at INR70.98 crores, compared to INR60.13 crores in Q3 FY '23 and INR167.4 crores in Q4 FY '22. Cumulative EBITDA for the year is INR 297 crores against INR 652 crores in FY '22.

EBITTA margin for the current quarter is 10.84% against Q3 margin of 11.19% and Q4 '22 margin of 21.8%.

We have reported PAT of INR38.54 crores during the quarter, against INR31.58 crores in Q3 '23 and INR85.47 crores in Q4 '22.

Cumulative PAT for the current year is INR164.81 crores against last year PAT of INR326.14 crores.

EPS for the quarter is INR6.86 per share and for full year it is INR29.32 per share. Cash EPS for the quarter is INR10.64 per share and for full year it is INR44.76 per share.

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

Dinesh Nolkha: Good afternoon everyone and thank you for joining the call. Let me just brief you about the industry and business scenario. As discussed in our earlier conference calls and discussions, financial year '23 was a very difficult year for the Indian cotton textile industry as it faced multiple challenges during the year. Like, very high price volatility, higher absolute prices of raw materials, relative price difference compared to international markets, resulting in competitive disadvantage for Indian spinners in the international markets, and demand slowdown due to geopolitical tensions and inflation in European and US economies.

Cotton prices in domestic and international markets have stabilized and volatility has been reduced since last four -, five months and gap between the international and domestic prices has also corrected to a large extent. Due to unprecedented volatility in cotton prices and steep disparity between international and domestic cotton, the industry remained uncompetitive and had to resort to production cuts, mainly in Q2 and Q3 of last financial year. Now the utilization in the spinning industry is restored to normalcy with stable cotton prices and demand situation has also started to improve due to slight improvement in the retail side and reduced inventories in the downstream channel as well as various opportunities created by China Plus One strategy.

Coming to company's performance during the quarter and year, I would like to highlight that average utilization of spinning was 93% in the last quarter as against 80% in the previous quarter. Due to a weak export demand, the margins continued under pressure, though the top line grew by about 22%. Further, the finished fabric division continued to run on optimum capacity utilization. Demand from export has started to pick-up. We have seen uptake in export markets majorly from European countries, China and Latin American countries. However, demand of knit fabrics and relevant yarn for knitting has still to pick-up to the levels we expect it to.

As regards yearly performance, the company has been able to achieve top line of INR 2,407 crores in spite of extremely turbulent times. The decline of 10.6% in annual revenue is mainly due to planned lesser production in Q2 and Q3 to avoid heavy losses. Overall, margin remained under pressure due to high volatility in raw material prices during the year and the global challenges.

The company continues to focus and increase the share in value-added market segment and penetrating more in domestic markets. With expanded capacities, the cost competitiveness will improve. And also, it will help us to widen our product basket, enabling us to cater to varied product needs of existing as well as new customers.

Now, an update on the capex. We have already commissioned our weaving and knitting machines and finishing plant that is the fabric production process house is expected to commission during this quarter. As regards spinning, erections of machines are in progress and partial trials have been started. In our Chittorgarh unit, the erection of machine will start from July. So overall, we are on track with the execution and expect to commence the project within the timelines and envisaged during the initial period, barring a small capacity due to delay in supply of electronic components from our suppliers.

This is all from my side. We are now open for questions from the participants.

Moderator: Thank you very much. Our first question is from the lion of Chinmay from Emkay Global. Please go ahead.

Chinmay: Yes. Thanks for the opportunity. First, I want to understand what has been the spread for the quarter and a year as a whole?

Dinesh Nolkha: Basically, if you see, our total yarn spread was from raw material to the yarn. It is about INR100, INR103 or INR104 for this particular quarter. And for the year, it was slightly higher at about INR112 or something like this.

Chinmay: Okay. And at the end of the year, it looks like the inventory level looks higher. So is it that you guys have already bought cotton for the rest of the year and what is the average price for the same?

Dinesh Nolkha: Normally, we do not disclose the average prices. It is in line with the market prices. And yes, definitely it is higher than the last year. The inventory level is higher than last year. We generally follow a principle of not to have too much of stocks with us at reasonable level. Last year, because the cotton prices were very high, we did not stock too much. This year, it is reasonable.

Chinmay: So how many months or something of any data on that? How many months of inventory do we have?

Dinesh Nolkha: Basically, that is a normal data which we do not want to share on the confidentiality reasons. You can always calculate it with the numbers which are available with you.

Chinmay: Okay. And in terms of the project that is going to be commissioned, on the spinning side, you said, it will be done based on the timeline emphasized earlier, which is like September '23, right?

Dinesh Nolkha: Yes.

Chinmay: So in terms of benefits coming, weaving and knitting is already done. So if you can just bifurcate 1H and 2H, some part of the benefits would come in 1H as well, right? From these two, and spinning should give some benefit on H2, is it fair to understand?

Dinesh Nolkha: Yes, definitely.

Chinmay: And so how much has been spent as on 950 was the total cost as, out of which 850 was the hard cost. So if Maheshwari ji can let us know what is the exact money that has been spent and what is left till now?

P Maheshwari: As on date, we have spent nearly INR600 crores.

Chinmay: Okay. So from a planned perspective, INR250 more crores needs to be put, right?

Dinesh Nolkha: Yes. Basically, we have spent INR600 crores, out of which about INR560 crores is on plant and machinery and INR40 crores on the working capital and others. So this will be -- so we are still left with about INR280 crores, INR290 crores for our capital expenditure and another 50 crores for the working capital site.

Chinmay: So based on the current cash flows, how much more debt we will be requiring, sir, for F '24?

Dinesh Nolkha: Basically, at the end of the March '24, means you can, that is the basic idea which is required. So our total debt should be in the range of about INR1,350 crores to INR1,400 crores, inclusive of our working capital requirements. Our long-term debt will be about INR810 crores and short-term debt will be about -- in the range of INR500 crores to INR550 crores depending on the inventories and others.

Chinmay: Okay, sir. Thanks a lot and best wishes.

Moderator: Thank you. Our next question is from the line of Surya Narayan from Sunidhi Securities. Please go ahead.

Surya Narayan: Yes. Congratulations for the set of numbers in the challenging environment Dinesh ji. My question is that, first question is related to the -- apart from the cotton, we are also using some other fibers. So what is the fiber mix for closing of FY '23 cotton vis-a-vis others?

Dinesh Nolkha: Yes. So basically, if you see last year, our total consumption, if you see of cotton, was 90%, about 91% to be precise. And we are also using some viscose, which was about 1.5% and another 7% to 7.5% on the polyester side.

Surya Narayan: Okay. So, and going forward, is the cotton prices, because, there are in export, a lot of demand from the European side also coming from the blended ones. So will the blended ones will increase to see that reduction in the cotton mix?

Dinesh Nolkha: Basically, what we are -- definitely, as it mix, we definitely will have a reduction in the cotton side. We will have more of polyester and other fibers going forward. But overall, consumption of cotton will not come down, because our capacity in the cotton side is also getting added.

Surya Narayan: Okay. So what could be a FY '24 ballpark figure for cotton versus man made?

Dinesh Nolkha: Should be about 85%-15%.

Surya Narayan: 85%-15%. And the second question is that we have provided, taxes to the extent of only 6% versus earlier, guided around 9%. So considering, when we will be approaching next year, I hope we are entering into 25% taxes in business. So is the current taxes and whatever has been provided, will be the final Maheshwari ji , any data regarding this?

P. Maheshwari: So this year, tax rate is considering revising the deferred tax liability, which was provided on the basis of 34%. So next year, the tax will be 25% on this.

Surya Narayan: So this tax, this provision is final regarding the tax?

P. Maheshwari: This is final, because these are audited figures.

Surya Narayan: Okay. And sir, other question is that compared to the normal yarn, what is the value-added yarn we are making?

Dinesh Nolkha: We are making various varieties of yarn. We are making stretch yarn. We are also making the slub yarn. We are also going forward, we are going to produce gassed yarn. Also, we are making some specialized blended yarn with high tensile requirement. So that is in the special category. And also, we are trying to develop the products as per the various industrial end needs also. Wherein different kind of twists and different kind of parameters are desired. So we are making for different applications for high strength as well as for different applications as well.

Surya Narayan: So I mean to classify into the yarn from, let's say, below 30. Below 30 count and-plus above -- of 30 count is special, I mean, specialty size up to, let's say, 80 or so. Whatever we could be providing. And plus slub yarn and other yarns. So if you can give some kind of percentage figure in terms of value wise or volume wise?

Dinesh Nolkha: I am sorry to say, we will not be able to share the exact data for this. We are not having it ready with us. And anyway, for confidentiality reasons also, we will not be sharing this. But I can tell you, we are not considering 30's count and above as a specialty yarn. For us, all the normal combed and compact yarns are normal, considered as normal yarns only. When we do something additional over and above this, so that we have a higher value-add where we get better realization. And it has a different application. Then only we consider it as in that value-added category.

Surya Narayan: Dinesh ji, value-added could be around 10% to 50% higher realization compared to normal combed yarn. So I believe, we can quantify the volume also. I mean, in the ratio of, let's say, normal combed yarn to other value-added yarns. So that kind of ratio will help?

Dinesh Nolkha: At the moment, we are not having that data. Maybe we'll work out and share with you.

Surya Narayan: Okay, I'll come later, sir. Thank you.

Dinesh Nolkha: Yes.

Moderator: Thank you. Our next question is from the line of Falguni Dutta from Jet Age Securities Private Limited. Please go ahead.

Falguni Dutta: Yes, good afternoon sir. Sir, you mentioned the spread for Q4 to be INR 104 a kg. So what was the number for Q3?

Dinesh Nolkha: I think for Q3, the number was about INR 94 or INR 95. Maheshwari ji will be able to exactly tell you.

Falguni Dutta: Okay, and sir, how would it be now as we speak?

Dinesh Nolkha: More or less like, similar kind of situation is there. Cotton prices have been very, very stable for last four months. They have moved in very short range. And accordingly, the yarn prices have also not been going up and down too much. In between, they went up slightly and again, they have come back to similar level. What was there in the January and early February? So the range is more or less similar.

Falguni Dutta: And sir, what is the current price for 30s count yarn?

Dinesh Nolkha: Depends on the kind of product you are making for 30s compact. We think the price is in the range of about INR265 to INR275 depending on the quality and others.

Falguni Dutta: So when we say, 30s, normally people refer to 30s compact, is it?

Dinesh Nolkha: Yes, that's why I've mentioned the brackets 30s comb, 30s compact, 30s weaving. So there are various kinds of products in the 30s also. So that's why I've given you a range of about 30s.

Falguni Dutta: So, 30 combed would be, how much?

Dinesh Nolkha: Ma'am, we will not be able to share that much of information.

Falguni Dutta: Okay. Fine, sir. Can you just give us an idea of how do you see the export market for FY '24, if we compare them with the last year, directionally?

Dinesh Nolkha: Definitely. Actually, last year, we had seen too much of volatility. Prices were falling continuously and customers were scared to buy. And customers wanted to finish their inventory, which they were carrying of higher prices. So there was a restricted buying. Considering that the prices are stabilized and normalized, we would prefer to have basically that going forward, demand will increase. And this year also seeing and feeling from various customers. So definitely, this would be a better year than the last financial year. Of course, still we have to reach the level of FY '22, which will not be there. Because that particular year, the demand was very, very low.

Falguni Dutta: And sir, last question, I just missed on your export percentage for the last Q4?

Dinesh Nolkha: It was 56%.

Falguni Dutta: 56?

Dinesh Nolkha: Yes.

Falguni Dutta: Thank you, sir. That's all from me.

Moderator: Thank you. The next question is from the line of Mr. Pankaj from Affluent Assets. Please go ahead.

Pankaj: Thanks for taking my question. Sir, I just wanted to understand the industry scenario compared to last quarter, I mean Q3 and Q4, our spreads are improving if I could read it right? And from the commentaries of other management, I could understand that the de-stocking phenomenon which was affecting the industry has been put to rest and it is bottoming out? I just wanted to understand, what is the industry scenario, global scenario? And also, the weakening of economies around our -- peer economies which are surrounding us, and what would be the impact of the same on our near future?

Dinesh Nolkha: First about the industry scenario in general. In general, there was slowdown in the textile segment all around the world. There was a fear of recession due to which a lot of retailers went in to reduce their inventory. Interest costs for them was also increasing. So to balance it also, they had resorted to the inventory cuts. But fortunately for the industry, the retail sales have not come down substantially. Even if the numbers which is being reflected by various economies, if you see the actual number of pieces which has been sold has not come down substantially.

So as such demand at the customer end is reasonable. And we expect after this reduction in the prices -- substantial reduction in the prices in last eight months, nine months. And also a reasonable inventory levels at various retail levels as well as the manufacturing levels, the demand should be stable. So going forward, we foresee that demand remaining reasonable. Yes, there are pains in various segments of the industry. So in some of the industry segments are doing well and some of them are still to recover. So that is a natural course which will take care, which will happen over a course of next six months to eight months.

Pankaj: So can you name which segments are doing well and which are not doing well?

Dinesh Nolkha: Like, if you see last year, home textile was not doing well. Now home textile is improving. Similarly, the apparel section is also improving. Knit segment, as I initiated in my commentary, that is not doing very well. And also there is an impact on the denim segment. So basically, leisure wear side, still there is some pain left and the formals and the home textiles are doing better than what it was last year. Of course, still to go to the normal level.

And we, as you rightly commented in your question, that we are seeing that it is a bottoming out process which is happening. Cotton prices all over the world are reaching its bottom level, near to the cost of production they are reaching. So now we should expect them to, if they remain at this level, the business should happen in a good manner.

Now coming to your second part of the question where you said that how the position of our neighbours and other competing peer countries, we fortunately or unfortunately our peer countries are in deeper trouble than us. I would say that we have problem in Turkey of specifically earthquake. It has dismantled their complete production chain. Pakistan and Sri Lanka and today even Bangladesh is having currency issues. And China, as we all know, people want to shift from China and they also had a severe COVID issues. So opportunity wise, we are in a very good position where we have a complete supply chain up and running.

And we are also seeing that various segments of the industry are getting utilized properly. In India, spinning capacity is being utilized more than 90% at this point of time. And also the downstream industry in weaving is also getting utilized pretty well. Knitting of course is slightly less but rest of the segments are doing very well. So we expect that the demand of various countries, especially the developed one, should come to us.

Pankaj: Thanks a lot sir. Just one follow up. So with demand improving and raw material prices subdued, do we expect double whammy playing out for us in coming season and in coming next 9 months or 12 months?

Dinesh Nolkha: We feel that not yet. Still as the economies have the fear of recession, we are still, the fear of recession is not out. So people are playing it out very, very cautiously. People have not yet started to build up their inventories to the reasonable level. Still because of high interest rates, people do not want to have a higher inventory level and which could result in higher sales. So definitely still that is a way away. And these prices are like stable prices, not subdued prices. Cotton prices not long ago were at 40,000 rupees a candy and 60-65 cents per pound. So now they are at a reasonable level I would say.

Pankaj: Thank you sir. Thanks a lot.

Moderator: Thank you. Our next question is from the line of Aman Madrecha from Augmenta Research Private Limited. Please go ahead.

Aman Madrecha: Hi sir, thanks for the opportunity. The regime mentioned that the current cotton yarn spread there around INR100 to INR104 per kg. So could you like provide the number wherein like if we are able to block better margins of around 16%-17% again. So what could be the ideal cotton yarn spreads wherein we can block this margin?

Dinesh Nolkha: Actually these percentage depend on the denominator. So with same spread we were making 15%-16% percent in the year 21 when the cotton yarn prices were averaging around INR210 or INR220. And today with same denominator when the cotton yarn prices are at about averaging at INR290 this is like looking like 11%-12%. So consequently from here if you have to move up in the EBITDA side by 4%-5% you will have to add another INR10-INR12 to the delta.

Aman Madrecha: Okay. And sir I also wanted to confirm that like the news which you were hearing that the North Indian spinning was like they were looking to halt their operations for around 1-2 weeks a day. So is it happening with the smaller spinners or is it a scenario that is happening because initially the spinners were switching to the blended, the blended polyester viscose. But now they have even stopped for that also. So can you like confirm this is actually happening or what is the scenario?

Dinesh Nolkha: As far as I am informed we are not as I told just now in the previous question that the utilization level of the spinning is at about 90%. And we are not seeing any stoppages weekly or monthly or something on that part. Yes, definitely there is a change in the product mixes during the COVID times and also during last year, second half basically first half of last year when cotton season was ending. The non-availability of cotton has shifted many spinners to the alternate fibers. They had experienced those fibers and have seen that whenever there is a good demand on that side the margins could be very reasonable. So considering same some people have shifted definitely ,shift happening because of the demand of the various products which they were producing not because of anything related with availability of cotton or sale of cotton as such. Yes, in south of India as we have heard that some small spinners are facing financial crunch and are under pressure so accordingly they have stopped. That is why the average utilization is coming at 90%.

Aman Madrecha: Okay. And sir could you please draw the number like what percentage of revenues from Bangladesh currently and what was over that last year?

Dinesh Nolkha: Pardon? What is the percentage?

Aman Madrecha: What is the percentage of revenue from Bangladesh and what was it last year?

Dinesh Nolkha: The percentage of revenue from Bangladesh last year was about 20% plus of the total revenue and this year it has come down to about 15%-16%.

Aman Madrecha: Okay. Thank you. That's all from my side.

Moderator: Thank you. Our next question is from the line of Niraj Mansingka from White Pine Investment Management Private Limited. Please go ahead.

Niraj Mansingka: Thank you. Nolkhaji, I had some questions related to the industry. I know you have just said that utilization of spinners are at 90%. But there are some reports about slowdown in the rural side and on the state-wide view side there were some reports on the slowdown in the some utilization of southern India. Can you throw more color on whether you are seeing more organized there, getting more market share and in the demand side in the market? Do you see the rural development in an average normal demand or do you see the slowdown happening? And still on that some color on the inventories. All this combination would be very useful. Thank you.

Dinesh Nolkha: Basically, utilization part, , we have been cautioning the various industry, I would say government as well as the various industry segments, that if there is a pressure when in between there was a lot of talk about increase in cotton prices, there was a statement coming from one of the associations that cotton prices may go up to 75,000 levels whereas the international prices were much lower. So this was a sort of a reaction from the association there, that if the cotton prices go to such level then we will have to resort to production cuts.

So it was sort of a warning to various industry segment. It has not actually happened. It was just a reaction to one of the statements which was made that the prices may go up so high. So actually to happen it is not yet, none of the associations which I know and talk about talk to has resorted yet to the production cut. They have been discussing between various industry segments how to balance the demand and supply. So that was one of the things. As far as we see, we see that a lot of players getting, the bigger players are getting bigger, the capacity is increasing and their utilization level is also very stable in compared to the smaller players.

So that reflects in itself that there is move towards organized players. Organized players are having better cost efficiency, better reach in the market and also the variety to offer whenever there is a change in the product mixes, they are able to do it. So that actually helps these organized players to do better than the smaller ones. There is an unorganized one. That is definitely happening. And the second part of your question, can you please repeat?

Niraj Mansingka: More on the rural demands. There are contrary reports where the rural demands in the garmenting side have slowed down. But here you are talking about utilization and 90%. So I was trying to see what might have caused this and has it picked up.

Dinesh Nolkha: Basically rural demand is like in India, what has happened is that we normally categorize, there are two or three categories of products in the final garment. One is a low end garment production, low end garment value, which is lower value. Middle one generally which has been sold in urban cities and then the luxury market, where there is high-end prices. So whenever there is a demand slow down in the lesser price product, we presume that it is slowing down on the rural side. But it is not so. We cannot categorize where our products are sold in rural as well as the urban areas. Here the product categories are on the price point.

And we are seeing definitely that low cost products are slightly selling on the lesser side. That is definitely happening. We are seeing that people are switching over to better price products, maybe due to the quality reasons or maybe the money power has improved. So they want a better product out of it. So that is how normally the things move in our industry segment. It is very difficult for us to judge about the rural or the urban demand.

Niraj Mansingka: Got it. Thank you very much.

Moderator: Thank you. Our next question is from the line of Rahul Sony from ICICI Bank Ltd. Please go ahead.

Rahul Sony: Yes, thank you sir. Thanks for giving me the opportunity. Sir, I would like to have an idea for you. So how was the demand for products like RMG and home textile during FY23? And what's the expectation for FY24?

Dinesh Nolkha: Both the segments are improving. Home textile had a very rough last year. All of a sudden due to US demand, when it was declared that US may go in recession, a lot of the price destruction happened and accordingly demand also went down. But now we are observing that the home textile players are doing reasonably well. Their demand is also picking up. Apparel segment has been steady because a lot of shift is happening also from due to China plus one from various other and the problems which our neighboring countries have. So the apparel side, garment demand is doing pretty well. We are seeing that garment utilization is also very high in our country, I mean production.

Rahul Sony: So we can assume that the growth in home textile for I am talking about the industry revenue growth will be positive compared to FY23 in FY24. We are also expecting the same.

Moderator: Our next question is from the line of Krishna Kumar from Lion Hill Capital Private Limited. Please go ahead.

Krishna Kumar: Good evening sir. Just follow up to the previous questions from a profitability perspective. Right now we are in a spot where probably the raw material prices are a lot better. And you also have the levers of better demand conditions and also improving product mix probably over the remaining part of the fiscal year FY24. So what would be your expectation in terms of margin improvements, gross margins, if these things would hold out and cotton prices remain rather stable at the current level. If such conditions, how would you kind of look at gross margins because these margins have collapsed nearly 12 months or 12 months. So how do you see the scope of the improvements sir.

Dinesh Nolkha: A gross margin, definitely we have as far as net income is concerned, we see that the gross margins in this quarter were one of the lowest which we have seen in last so many years. And we feel that this has bottomed out from here on which there should be an improvement as the new capacities are going to be added up. Value addition, capacity is now downstream, segment is also already getting added. We see that this should increase our cost competitiveness. And of course with various products which we are adding and then it should be able to cater to new customers also. So definitely that should look better. I don't want to put a number to it. We have always guided, broad guidance have always been given for the kind of product mix from ourside and we aspire to reach there. But in these volatile times I do not want to forcast for the full year at the moment. Let us see how the rest of the year stands out in terms of global uncertainty especially. If we do not see any uncertainty, we should be definitely better than what we are doing.

Krishna Kumar: On the cost and other than cotton, if you look at other costs, logistics or power etc. So how are you seeing trends there sir? Are there any favourable trends on the other variable costs for us sir?

Dinesh Nolkha: On the side of logistic side, definitely the costs have bottomed out. We have seen a lot of, if you see, total prices of the sea freight as well as the expenditures on the transportation being incurred by us during this current is much less than what it was last year. So definitely the costs have come down substantially in comparison and in fact they have reached near to pre-COVID level. So there the costs are very well in control. As far as power is concerned, we have already added some solar capacity last time actually. We are further adding up our, in this current year also, the solar capacity. So that should help us in bringing down our overall power cost. But as far as, and there is a stable power rate in our state which has continued for last 2-3 years. So it should remain in the, it should be on the positive side as well.

Krishna Kumar: Sure sir. Great sir. So last question sir, after this current big capex is over in the current fiscal, what would be the management's view of further expansion, you know, capital aside, but would you like to probably go through a couple of years of consolidation or would you like to look at one more expansion coming on top of what happens in FY-24, what would be the current risk appetite of the management sir?

Dinesh Nolkha: As of now for at least one year, I would rather say one and a half years from now till September of next FY-25. We are not envisaging any addition of brownfield capacity or greenfield capacity. We are just, we would like to first stabilize the production, reach the optimum capacity utilization and improve our margin. That is a consolidation process which is going to go on. And then we will think about the strategies for the segment which we want to go in and definitely we will share with you as we come up with some ideas about this.

Krishna Kumar: Thank you and wish you all the best sir.

Dinesh Nolkha: Thank you. Thank you.

Moderator: Thank you. Our next question is from the line of Vishal Ramchand Panjwani from Elara Capital. Please go ahead.

Vishal Panjwani: Congratulations for good set of numbers. I just wanted to know like for current, capex, like by when it will be commissioned and like how long it will be taken to ramp this up?

Dinesh Nolkha: Like parts means what we have envisaged is total capacity capex of about 950 crores. And out of this we had downstream industry, downstream like weaving, knitting and finishing. So that is nearly completed. Already part of it has been already started and knitting and weaving is already started. The finished subject segment is also going to is under trial run and going to start very shortly within this quarter. So we are there. for spinning portions, trial runs have started in some of our capacity, and they are going to get commissioned in next six months on a monthly basis. Part capacity every month we will be adding from June onwards.

So that capacity will be added and we expect that barring some small as we see there is some still electronic shortages, chip shortages are still there. So some of the machines maybe would be able to start by October or something like this. So, we expect by October we should be in a position to start our all our production. And we should reach our optimum capacity utilization by the end of this financial year. And next financial year, we expect that the full benefits of this capacity increase would be available to the company.

Vishal Panjwani: Okay. Thank you. What will be the top line you should be estimating after this capacity addition?

Dinesh Nolkha: Of course, it depends a lot on the cotton prices and accordingly the prices of the yarn. But on the current run rate, we should be in the range of 3,500 crores plus.

Moderator: Thank you. Our next question is from the line of Surya Narayan from Sunidhi Securities. Please go ahead.

Surya Narayan: Yes. When is the, are we selling any gray cloths to outside market?

Dinesh Nolkha: We are selling some small portion of our weaving fabric, because our processing fabric was yet to be commissioned. So we are selling some small capacity.

Surya Narayan: Okay. And what% of our yarn is getting converted captively?

Dinesh Nolkha: At the moment about 23%. Last year we did about 23% of our yarn was getting captively consumed

Surya Narayan: So with the expansion by FY '24 and what will we be consuming?

Dinesh Nolkha: We have added capacities in all the segments. So the percentage will remain more or less like around 25%. In between 25% to 27% of our yarn will get consumed in our additional added capacity also.

Surya Narayan: Okay. Another question is that we are actually observing higher realization in the weaving part but rather than in the knitting we are not getting higher realization. Of course, due to the reasons you have cited earlier that the sector is down and others. So my question is that now had those yarns which were actually put into the knitting segment, it could have gone into the weaving.

Then what kind of Delta would have achieved or that is what I'm, what I'm saying is that in future suppose of kind of law in the leisure, leisure segment will be continuing. Then will it be possible to convert or let's say to focus on more of a woven segment rather than your knitting segment so that we can get more returns. That is my point?

Dinesh Nolkha: In spinning side we are very flexible. We have all the capabilities to switch over, reduce, increase the knitting yarn production or shifting towards weaving. We can be, if need arise, we can be, we can do 100% weaving yarn and also if need arises we can do 100% knitting yarn also. So that way we are very, very flexible on that particular side. So we do not lose anything as the demand comes and as the price point is better for weaving we switch over accordingly. That is the flexibility we have.

Yes, in the fabric side both the process are completely different and on the fabric side we are not able to switch over from the knitted machines are completely different. And the woven machines are also completely different. So they are definitely different.

Surya Narayan: I agree. I mean given for higher realization will we devote more towards weaving than knitting. That is my point?

Dinesh Nolkha: Yes, of course we always do that. That is always a part of our strategy. We are already doing, in the yarn business we definitely do that.

Surya Narayan: Okay. So one kg of yarn generates around three meters of woven fabric. But what kind of scenario in our knitting segment if you can give some idea?

Dinesh Nolkha: Knitting segment is like, for one, let's say a t-shirt you need about, in one kg of yarn you make nearly 2 to 2.5 t-shirts depending on the kind of product you are making. And in the shirt side also you need, you can make about with 1.5 meter of fabric use about two shirts per kg of yarn. So that is where it, so it is not basically where we are not into garmenting business. So we are not, basically we are selling the fabric side only. So it doesn't matter we, we can, and it is, we are using only 25%, 27% of our capacity, which is easily tangible. We can change and we can shift to whatever is required us to do on the spinning side.

Surya Narayan: Okay. So in weaving side we have seen an increment of realization of around 17%. So we had a big jump in FY '22 of 40%, but there is tapper two or tapper down to 17%. So if let's say I am to segregate between the value and the, and the, I mean, what is the value addition? So we should be the inflation. So can it be said to I, you know, assume that we have added only 7% to the value?

Dinesh Nolkha: I am not able to, for what, means 7% for what?

Surya Narayan: Realization, realization in the weaving part, weaving segment?

Dinesh Nolkha: I am not able to get your question, actually.

Surya Narayan: In the, in the weaving section, for meter realizes is around 182, 166 last year and 106 FY '21. So we had a big jump in FY '22 around 48%. So this year that growth has…

Dinesh Nolkha: Last year, last year was from 106 to 166 was because in the, that particular year we were not having our process house running full capacity. It was including, it was including the gray fabric also. So that, that increase came because of the gray fabric utilization also. Here, now our capacity is on the woven side and the finished side is quite balanced. 90% of our production goes into the finished fabric side. So they, now the more comparable figures are last year to this year. And that is primarily at higher value add.

Surya Narayan: So, going forward, how much value addition is possible or will the realization will stay at this level or any room for expansion in realization going forward?

Dinesh Nolkha: Over the, in the fabric side?

Surya Narayan: Yes.

Dinesh Nolkha: In the fabric side, the yarn prices have, if you see the yarn prices have reduced much more in comparison to our fabric side. Fabric prices have remained more stable or rather they have gone up only. So there we see much more stable regime and we expect that prices will remain more or less stable.

Surya Narayan: So we can assume that now for FY '24 and '25, keeping in inflation, we will be getting that kind of growth. Let's say maybe 5% to 7% in realization.

Dinesh Nolkha: Not, not in, not now because already whatever increase or inflation you are expecting has already happened cotton prices have come down. So, from here we do not expect the per unit price to go up substantially.

Surya Narayan: Because you know we have introduced certain lines which were actually available…

Dinesh Nolkha: That will increase the production.

Surya Narayan: Okay, that will increase the production.

Moderator: Thank you. Our next question is from the line of Mr. Vikas Rajpal from VK Capital. Please go ahead.

Vikas Rajpal: Hi, sir. Good evening. Thanks for taking my questions. So, you know, if you look at the company's geographical space, we would see that the domestic revenue growth has been more or less flat, but we've seen incremental growth coming from the export side. So, sir, I just wanted to know which particular geography did you see good growth coming in from? That's our first question, sir. I'll follow…

Dinesh Nolkha: Actually, it is not that way. Last year our exports were higher and this year our exports are lesser. Last year our exports were about INR1,950 crores and this year our total exports are about INR1,356 crores. So, in fact, exports have come down in this particular year.

Vikas Rajpal: No, but sir, I'm asking on a sequential basis. Last quarter exports were, I mean, compared to last quarter exports were better.

Dinesh Nolkha: Yes. I have already told in my commentary also that we are seeing good uptake in Europe. Also, we have seen some demand coming in from Latin American country and China was also doing better than previous quarter.

Vikas Rajpal: Okay. And sir, on the margins, sir, I suppose that, you know, there would have been an incremental growth in margins. So, January would have been the lowest margin from where we started off, in December and now, right now we must have been at, you know, at a higher margin compared to what on a blended level we are reporting. So, I just wanted to get the sense of that, sir. And where we are currently?

Dinesh Nolkha: Currently, we are more or less at similar levels what we were in Q3 and Q4. The margins have not substantially improved. There has been a pressure on the demand from the export side. Our normal exports of the country of cotton yarn used to be very, very high in the financial year '22. We have not yet reached that level. Domestic demand is better, but still the prices have not substantially improved. So, you can, we can consider margins are more or less flat at this point of time.

Vikas Rajpal: Okay. So, sir, you just mentioned sometime back with an additional, INR10 to INR15 of Delta, we might be able to achieve 14%-15% kind of margin. So, when you, when you say that, so do you mean that, you know, you need an incremental higher spread coming in from the export business side?

Dinesh Nolkha: Basically, overall with the kind of inflation happening all around with the increase in cost. If you see these kind of Delta, I explained in that particular question also that with the same Delta we used to make a 15% margin, maybe two years back. But with today, with increasing cost every in the every segment, we also need to increase our prices by another INR10 to INR15 to reach that level. So, that is what we aspire to reach that if you have to reach 15%-15% margin, we need to increase our ultimate product prices as well.

Vikas Rajpal: Got it. So, additional Delta will come in only from increasing price. Got answer. Lastly, on the debt part, sir, I know that we are doing capex and that's why I mean that debt remains a little bit on the inflated side. So, any roadmap to, where, so currently if you look at debt equity, it's close to one. So, any roadmap to where, you know, we intend to reach on the debt levels in the next couple of years?

Dinesh Nolkha: Basically, this is our upper limit. We wish to maintain our debt equity below one which we have been doing for the last two, three years. And basically, all these debt which we are taking are on a concessional interest rates. So, that increases our return on net worth because if you reduce the debt, we are trying to keep the debt in very manageable levels where we are easily able to service them and that helps in the growth of the company. So, considering that, yes, definitely debt equity below one is our target.

Vikas Rajpal: Okay. And sir, my last question is on the spread side again. So, sir, I think in one of the previous con-call you had mentioned that the new capacity which is going to come in, that will be able to manufacture blended yarn as well because, when the cotton prices had gone up, you had seen an incremental demand coming in from the blended yarn. So, sir, I just wanted to know what the realizations of blended yarn versus your cotton will be. I just wanted to understand that basically?

Dinesh Nolkha: The blended yarns we are making also blended with cotton. Also blended various two or three kinds of manmade fibers getting blended. And prices frankly depend on what kind of product mix you are using and it has a very, very wide range. So, very difficult to quantify because if we have to, then we have to benchmark one of the products and then we have to work on that particular side.

But definitely we have seen that the margins were very, very low in these segments earlier. Now they have improved in comparison because of the demand in domestic market as well as India becoming more competitive in the international market. So, we foresee that that kind of demand will remain and accordingly we have tried to make a product mix where we are also focusing to produce this kind of product.

Vikas Rajpal: And sir, since you are saying that the industry is operating at around 90%-95% utilization levels, so what stops us from taking price hike or is there any price hike in pipeline right now?

Dinesh Nolkha: Basically what is happening is the industry is reaching 90% levels and the domestic segment is also doing reasonably well. But the exports are not picking to the extent what we are expecting to be. That is actually, if we come back to the normal export level, India as a country used to export more than 100 million kgs of yarn, cotton yarn every month. So, we are not near this. If you reach that level, definitely prices will automatically increase as well.

Moderator: Thank you. Our next question is from the line of Anil Kumar Sharma, individual investor. Please go ahead.

Anil Kumar Sharma: Good afternoon, sir. Thanks for the good numbers. Congrats for that. Sir, my question is how much we are exporting to China right now and what are the prospects of exporting to China in this current year? And number two, what inventory level, what is the raw material of the total and what is the finished goods?

Dinesh Nolkha: First of all, for China, last year we were in the range of about 6%-7% of our total export sales, which is about 4%-4.5% of our top line. So, in going forward, last year was a year where China was closed to a great extent. In the previous year, the exports to China was to a level of about 10%. So, we expect that this year it will be definitely better than the last financial year.

As far as the inventories are concerned, normally we do not disclose about this, the number of days or how much inventory we are carrying. But we are carrying definitely higher than the last year and our finished goods are also in line, very nominal finished goods are also there. It is nothing to, not the increase in the finished goods which you are seeing, increase in the inventory which you are seeing is measured in the raw material.

Anil Kumar Sharma: Thank you, sir. Sir, my last question is that going forward, where do you see the cotton prices? Still cotton prices are somewhat higher than the international level. Where do you think it is going to be? Whether it is coming?

Dinesh Nolkha: We feel that cotton prices should remain at this level. We had a very low production of cotton, one of the lowest cotton production. We just come to the, actually the cotton production has been higher, but farmers have not been bringing the raw cotton into the ginning and pressing. As on today also, we are seeing cotton coming in and getting pressed, which is normally by this time the season is over. And still we are seeing more than 1 lakh bale of cotton coming in.

So, in considering that there is a good supply demand supply balance happening and accordingly we see the cotton prices to remain at current level of about 62,000 ..

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: Just one quick thing. We have already discussed this thing in many questions also on the margin side. Our sales is happening, capex is on course, but our given guidance of 16% to

20%, we are very far from that. So, some hint if you could share from 11%-12% to 16% whether you think it will happen in one year or take more time. Any hint on that, sir?

Dinesh Nolkha: Awanish, we definitely aspire to be at that place, but the current situation is not very conducive as far as the global situation is not very conducive. Domestic demand is still far better. Domestic demand has been stable, I would not say better, but they have been stable. So once the export situation and the global situation improves, definitely the normalization will come.

So we have seen many, many challenges, but still we have been reasonably able to maintain our operating margin. So once the normalization comes in, you will definitely see a kicker in our operating margin as well and reach to the targeted level. And it depends completely on the demand scenario. If it happens in next six months, you can see even in this financial year itself.

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. Any final comments before closing, sir?

Dinesh Nolkha: Yes, I would like to thank everyone, all of you for taking out time for joining the call. I hope you have been able to address all your queries. I would also like to thank SMIFS and Awanishji for hosting the call. Any further information, some of them which we have not been able to give, please get in touch with our finance team or our investor relation advisor. Thank you once again.

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