NITIN SPINNERS LTD.

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REF: NSL/SG/2022-23/
Date : 15.11.2022

BSE Ltd.
PhirozeJeejeebhoy Towers
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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 09.11.2022

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 November 09, 2022 on Operational and Financial Performance of the Company for the Quarter and Half Year ended on 30th September, 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: 2022.11.15 16:01:18 +05'30'

(Sudhir Garg)
Company Secretary & GM (Legal)
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“Nitin Spinners Limited Q2&H1FY23 Conference Call”

Wednesday 9th November, 2022

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

MODERATOR: MR. AWANISH CHANDRA - SMIFS LTD

Moderator: Ladies and gentlemen, Good day and welcome to Q2 FY23 post results conference call of Nitin Spinners Limited, hosted by SMIFS Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Awanish Chandra. Thank you and over to you Sir.

Awanish Chandra: Thank you Vivian. Good afternoon, everyone on behalf of SMIFS Limited. I welcome you all to Quarter 2 FY23 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 initial commentary on Results and then we will open the floor for question and answers.

Now I will hand over the call to Mr. Nolkha – Managing Director. Over to you Dinesh sir.

Dinesh Nolkha: Thank you SMIFS and Awanishji for hosting the call. Good afternoon and a warm welcome to all the participants, the Investor Call post our Second Quarter FY23 Results. I extend greetings to all of you for festive season and the New Year ahead. I have with me Mr. P. Maheshwari – Chief Financial Officer of Nitin Spinners.

I hope all of you might have had a chance to look at our investor presentation that is uploaded on Company's website as well as stock exchanges. Let me begin with the industry and business scenario. India as well as globally, textile business environment during the second quarter was relatively weak. The indicators for order intake, order backlog and capacity utilization rate fell globally and particularly the cotton textile sector in India has witnessed unprecedented situation in terms of heavy fluctuation in cotton prices in international and domestic markets, shortage of cotton in domestic markets and the demand disruption due to high volatility.

The quarter under review was also impacted by lower demand of yarn due to anticipated lower cotton prices in the coming season and the disturbances in the European markets and recessionary conditions in US market. Lower export led to pressure of selling in domestic markets, which led to margin pressures as well. Due to lower demand and margin mismatch resulted in higher prices of physical cotton and lower yarn prices. Spinning mills had to resort to production cuts to avoid heavy losses and pile up of inventory. Over the commencement of the new cotton season was the positive sign and expectation of a good crop. As the availability of cotton has improved and also prices are correcting to reasonable levels.

For the long term and the medium-term Indian cotton yarn industry will continue to benefit from the various fact of the US ban on exports from the Xinjiang region in China and supply chain de risking by the global customers.

In addition to that Government of India's efforts on the various treaties, FTA agreements, PLI and mega textile park schemes. We believe that Indian textiles long term growth prospects remain still quite positive.

Now coming to Company's performance during the quarter.:

The quarter under review was a difficult quarter for the Company in view of higher cotton prices, lower demand and lower realization leading to steep reduction in the margins. I would like to highlight what we have done during this quarter. First, we prefer to avoid the procurement of very expensive cotton. Secondly, we have cut the production of low margin or negative margin products and we strategically shifted some of our plants to blended segment. The Company also did not attempt for forced selling to customers and increase the share in the value-added segment and penetrated more into domestic markets.

For the finished fabric division continue to run on optimum capacity which helps us to manage the situation in a reasonable manner. As far as the current quarter situation is there, we have seen the new cotton crop has come in and we are expecting that this year cotton crop will be higher by about 15% then the last year, maybe back to the normal levels of 2019 and 2020 and prices have started to start moving lower and disparity between international cotton prices and domestic cotton prices are also gradually reducing. Global demand, of course, remains a concern but domestic demand is very robust.

Capacity utilization levels are being increased gradually by us from this month and we expect the same to come back to the normal level by January 23.

On the CAPEX front, we are on track with the execution of the same and expect to commence the projects within the timelines originally envisaged and we are determined to have a sharp focus on our business and deliver superior quality numbers going forward.

Now, I would like to open the question-and-answer forum for you to start.

Moderator: Thank you. The first question is from the line of Abhineet Anand from Emkay Global. Kindly proceed.

Abhineet Anand: Yes sir, First I want to know what has been our average yarn and cotton price during the quarter?

Dinesh Nolkha: Average yarn price was Rs. 373 and average cotton price was about Rs. 263.

Abhijeet Anand: And in terms of the CAPEX, you did mention but when can we expect some of the capacities are coming this year and from point of view of the spindles, if you can slightly give some more details, when are they expected in a phased manner?

Dinesh Nolkha: In this financial year we are expecting to start up our weaving and knitting capacity. Weaving and knitting capacities will be ramped up within this year and spinning capacity will be first, some of the capacity will come in first quarter of the next financial year, that is up to June half of the capacity and another half is going to come in the second half. That is by 30th September we are expecting to complete everything.

Abhijeet Anand: And if you can also, stretch up on w see that the exports obviously the export numbers are significantly down. Main reason would be because of the disparity in international and our prices. Right?

Dinesh Nolkha: Yes.

Abhijeet Anand: So, with the recent correction in the domestic market, in terms of cotton prices, have you seen in this Q3 the betterment into exports?

Dinesh Nolkha: Yes, definitely. as soon as the prices have returned, when it's returning to normalcy, we are seeing an uptick in the exports already, we are receiving good orders with reduced of course with the reduced level of prices.

Abhijeet Anand: Okay, and if I see one that in H1FY23 if you can highlight what are our top five export country, if you can highlight that, and a broader percentage as well.

Dinesh Nolkha: Basically, if you see as a number one export is at the moment, during last year was Bangladesh. Bangladesh used to be the number one country and the quantity was in the range of about 20%+ that was the ratio which was there and then we are exporting to Europe. Europe as European Union as a destination was also more than 24% to 25% of our total quantity. So, that is still there and then to smaller destinations is of course. China used to be one of the largest destinations where we used to export, but that is substantially down because of the COVID issues in China. So, that has come down from about 10-11% to about 2-3% and the rest is smaller-smaller percentages. Of course, in the US we have about 10%. We are doing about in North America about 10% and Latin America another 10%

Abhijeet Anand: So, I mean EU is for all practical reasons looks to be more impacted than US right?

Dinesh Nolkha: Yes.

Abhijeet Anand: So, you know our exports weakness, while it has been all India phenomena, but is it fair to understand because we have a high exposure to EU and even Bangladesh has a very high exposure to EU I guess? That is one of the reasons why our exports have been more down if it was more of US it would have been lower, I mean, just an understanding from you.

Dinesh Nolkha: No, it would have not made much of a difference. Basically, Europe as well as US both are down, but of course for different reasons. The Europe is down because of their share of problems due to the current Ukraine, Russia situation. Secondly, the steep depreciation of the of the currency, Europe from one point Eurodollar from 1.1516 level to below 1 which cause a lot of inflation in their own economy. So, these were the one of the reasons and in US, of course, the problem is that there is a severe psychosis amongst most of the retailers as well as consumer that we are going to get into recession, so we need to reduce our inventories. So, there the basic intention is to bring down the inventory level, not the consumption. Here there is an issue on the cost side because of the cost, there is a problem. So, both the major consuming countries consuming less the block of nations is having problems.

Abhijeet Anand: Okay, the last one from me, can you just highlight, you touched upon the retailers and the inventories. When you have from last six months has these inventory levels come down or you say stagnant that will determine the next few quarters for us.

Dinesh Nolkha: For the retailers or for us?

Abhijeet Anand: I am saying from retailers, people keep talking that retailers from US and EU have had a higher entity. So, I am just trying to sell the last six months has this come down or is stagnant or how is it if you can throw some light?

Dinesh Nolkha: It is coming down, definitely it is coming down. Actually, when in 2021 when the market there was a very good demand, all the retailers ordered pretty well and then we had some logistics issues, shipments did not happen, goods did not reach them. So, all of those goods reached somewhere in the middle of let's say around the March to June period, and then they were saddled with a lot of inventories. So, they started buying less and now that is coming down and they are expecting that after this festive season they will be much lower than the normal levels as well.

Moderator: Thank you. The next question is from the line of Muthu Kumar from Fidelity Ventures. Kindly proceed.

Muthu Kumar: This is Muthu Kumar from Tripur. Yes. I have three questions. The first one is regarding that anti-China and China one plus strategy, how it will impact your business and what are the strategies we were drawn to handle this and how many percentages of sales you are expecting growth from this and second question any idea about domestic demand that is you are planning to execute that is in spinning or knitting or weaving three of these? and third question is any idea to diversify your business apart from spinning, knitting and weaving and the last one is earnings outlook for the next three to five years. That's all sir. Thank you.

Dinesh Nolkha: First of all, I will answer your question number three, which is for diversification. At the moment, no, we are into textile having spinning, knitting and weaving and we will continue to remain in this at this point of time. So, that is first. Regarding your question number four I will not be able to elaborate because it will be pretty long to elaborate on our three to five year plan, but of course, would like to tell you that we have been growing at a consistent phase and if you see our last even 10 to 15 years, we have been continued to grow with a very good CAGR of 18 to 19% and will continue to do that, of course, at this point of time in textiles only that is your answer to question number four. Now, coming to our question number two, which is about the domestic demand, the domestic demand is pretty good, especially in the weaving segment. The weaving segment has seen very good demand, because as the more and more economy opened and there was good demand for formal wear, as well as the dress material like school dresses, institutional sales. So, this was doing very well. Of course, there was some slack demand in the home textile as well as in the knit segment, but still, if you see from the 2019 level, we are it was very good and you can also see that retail sales in India, for the textiles and apparels have increased by about 28% over 2019 level. So, demand in domestic market is very good and we are also seeing that, due to which all the domestic facing businesses are doing very well. We have also seen that our fabric business which is more towards domestic market is doing very well and the yarn business as you all know, our prime focus was in exports, and we used to export 65% of our yarn products, and 35% used to go in domestic market. So, now we are trying to shift this basis to have more focused on the domestic market. In last quarter itself we have done 52% of our sales in domestic markets and will continue to endeavor to see that we will do at least 50-50 of our sales. We do 50% domestic and 50% in the export market and as far as other segments of the businesses like knits, plus other things that are happening, they are doing reasonably well barring some few pockets which were having some problems due to the very steep increase in the raw material price and now to your first question about the international market? Can you repeat that first question so that I can answer you point by point?

Muthu Kumar: Anti-China sentiment how you will see and china plus one strategy. Both are same.? What are the favorable factors you are getting in regards of anti-China sentiment.

Dinesh Nolkha: First of all, we are definitely seeing that China plus one strategy working for most of the end customers, because of the negative sentiments for China and the ban by the US on the Xinjiang products, most of the retailers as well as the brand want to have a other sources from where they can buy these goods. So, in the present context India being one country where we have all the all the resources, raw material resources, skilled manpower, plus the capabilities to ramp up the production, so, definitely that is working in the favor of our country. And in this context, we have to increase what we have to see here to increase the capabilities of production. Of course, quality wise India is very well suited, but we need to improve upon the cost structure of our country and where it helps to improve out logistics costs as well as also improve try to see that our turnaround times are better. So, definitely Government of India as you see is working on that part, they have introduced a PLI, second PLI is also on the anvil where they are going to further liberalize on that part thirdly, already logistics Gati Shakti has been introduced wherein which may reduce our costs. So, this is something which the government is already doing to improve upon the cost side. As far as our Company is concerned what we are trying to do is we are trying to capitalize on this. We are trying to focus on various end customers directly. Since we are also into the fabric business and have connect with the international buyers directly. We are trying to see that to have more and more nominations on our site, where most of the yarns as well as fabrics is procured by them from India rather than from China. So, this is something which we are working and we are seeing good results. Of course, this kind of efforts take some more time because these kinds of businesses do not fructify in a short period of time, but yes, we are seeing a positive movement in that particular manner and to encash all this, we are expanding our capacity also. We are increasing our spinning capacity. We are also increasing our product ranges; as a country we are weak in the blended yarn segment. So, that also we are trying to improve upon it, we are trying to add the capacity on that side as well. So, as a whole we will try to improve the product mix as well as the quantity so that we can cater to the leading customers all around the world.

Moderator: The next question is from the line of Phalguni Datta from Jetage Securities. Please proceed?

Phalguni Datta: Yes, good afternoon, sir. Sir what is our cotton yarn spread as we speak?

Dinesh Nolkha: As we speak, today, the cotton yarn spread is in the range of around Rs. 85 to 90 per kg around 85 level.

Phalguni Datta: I just missed your average yarn price and cotton price for the quarter. So, could you just tell that number.

Dinesh Nolkha: The average yarn price was 373, this Rs. 85 is for particular count which you are talking about normally, the spread is for particular count.

Phalguni Datta: And which would that be?

Dinesh Nolkha: 30's. Our average realization was about Rs. 373 and the average cost was Rs. 263.

Phalguni Datta: Okay and sir one more question at this cotton yarn spread are we breaking even or are we making money at 85-90?

Dinesh Nolkha: Of course, making money is it different for different notions? Definitely, it is breaking even no doubt about it but not yet reach number margin.

Phalguni Datta: And what would be the normal let's say for this 30s the number you gave of 85-90 what would be the normal number for that? I mean normal spread? Yes, what would be the yarn price for this 30s count?

Dinesh Nolkha: Yarn price is in the range of about Rs. 280 a kg.

Moderator: Thank you. The next question is from the line of Kirthi Jain from Canara HSBC, kindly proceed?

Kirthi Jain: Sir, my first question is with regard to the expected utilization, how is the utilization you expect to shape up over the next two quarters? Can you highlight it sir?

Dinesh Nolkha: First of all, during this last quarter, our spinning utilization was in the range of about 66-67 to 70%. Now, in this coming quarter, we are expecting to ramp. We started increasing our production capacities from first of November itself. So, we should be about in the range of 85% level and in the next quarter we expect to reach back to 95% levels normal level. As far as our weaving capacity is concerned, we are already clocking 90% plus and will continue to do so.

Kirthi Jain: Sure sir, when we say we have utilized 65%, but on the sales level, the utilization could have been lower right sir in terms of the volumes sold, because we see that in sales volumes have been little lower than production volumes.

Dinesh Nolkha: Yes, definitely it was about, not major differences there could be about 3-4% level.

Kirthi Jain: Sure sir, so is the sales volume also trajectory picking up sir.

Dinesh Nolkha: Yes, sales volume trajectory also picking up.

Kirthi Jain: Sure sir, then the normalization of profit like we used to guide for 18 to 20% on a normal profit we strive to achieve so when can we achieve that?

Dinesh Nolkha: We will wish to achieve it as early as possible. Normally, we guide for 16 to 20% with our product mixes and we expect that in the March quarter we should be very near to this.

Kirthi Jain: Sure sir. Sir with regard to the newer fabric capacity, when we expect to achieve full utilization and what is the expected value addition we can do?

Dinesh Nolkha: Basically, value addition in terms of?

Kirthi Jain: Value of the fabric output, which you will be giving out?

Dinesh Nolkha: We are expecting full utilization to reach for the increased capacity also from first quarter of financial year 2024. FY 24 we are expecting it to be in on screen. So, that will be there and value additions we are achieving I will not be able to put the numbers to this. So, I was not able to understand exactly what you wanted to know.

Kirthi Jain: Sir I mean the turnover in fabric how much fabric turnover will increase. That's the question.

Dinesh Nolkha: At the moment in the last quarter, I mean for the last quarter I think we did about Rs.116 crores which is about. So, annualized if it comes to around Rs.450 crores. We were expecting it to increase to more than Rs.600 crores going forward once our CAPEX is completed.

Moderator: Thank you. The next question is from the line of Ameet Kalyanpur from East India securities. Kindly proceed.

Ameet Kalyanpur: Sir, I would like to know out of the borrowing of 374 crore as of 30th September how much of it pertains to the expansion project?

Dinesh Nolkha: It is only Rs.20 crores.

Ameet Kalyanpur: So, what is the reason for the drop in interest costs on a quarterly basis as well as I mean other than the repayment of the loan is there any drop-in interest rate or anything like that.

Dinesh Nolkha: Like first of all utilization has come down. The working capital utilization has been substantially reduced you can see that there has been a substantial reduction in the working capital utilization. This used to be around Rs.280 crores, which has come down to averaging was about Rs.114-150 crores during the last particular quarter. So, that has brought down the interest costs. Secondly, some interest reduction is also there. We also got some better rates from the banks. So, that is also but that is not very substantial. The major issue is the lesser utilization. Okay.

Ameet Kalyanpur: Sir the other question is, there is deferred tax credit of Rs.8.4 crore which was there this quarter as well as in the last quarter. So, what does it pertain to and for how many more quarters it is expected to be there.

Dinesh Nolkha: Maheshwari ji, can you please highlight on this

P. Maheshwari: Deferred tax credit is the effect of rate. Last year we were providing that 35% tax rate for deferred tax liability that book created at 35%. This year, we have kept it to 25% results. So, the deferred tax liabilities as 31st March 2022 recalculate at 25% So, the average impact of about Rs.33 crores is there which will be in this year. So, this year it will be completed. About Rs.16 crores we have taken and Rs.16 crores further will be in the next two quarters.

Ameet Kalyanpur: Okay, fine sir. Thank you very much.

Moderator: Thank you. The next question is from the line of Prerna Jhunjhunwala from Elara Capital. Kindly proceed?

Prerna Jhunjhunwala: Sir your utilization rates are likely to improve going forward and even spreads are better than Q2 levels. So, can we expect that these numbers that you have reported are kind of worst and from next quarter there should be improvement in profitability going forward.

Dinesh Nolkha: from our point of view worst is not yet over because until and unless w utilize the capacity fully. That is one part. So, we have to utilize the capacity fully then only we will be able to know exactly how we land up? Of course, I am very hopeful from Q4 because they see posts from next year, we see very good demand. Also getting inquiries where we see that sort of demand is coming from next calendar year. So, from that perspective, I am quite confident on Q4 levels. On Q3 in comparison to Q2, I will not be able to comment as of now.

Prerna Jhunjhunwala: Okay. Understood and sir, are there any write-offs possible due to any high-cost inventory in terms of finished goods or raw material that you are taking in Q3 or that is all behind? Atleast as Prices have come down.

Dinesh Nolkha: Yes, because already Q2, definitely for q2 means we were not having any raw materials. So, we are not going to have any write-offs on the raw materials as such, because we are not carrying the inventories. That's why we had to stop our mill. So, that is not there definitely. Of course, on the finished goods side, there are certain normal, there are inventories, we have elevated inventories in the finished goods level also. So, if the price comes down to too sharply. Already, we are at the level of what at the end of September, what was the prices, they already re-calibrated our inventory level, our pricing to that particular level, but still if there is a sharp downturn in the prices from here also, and we see a lot of drop in the cotton prices, as well as yarn prices going forward then definitely will have to bring it down. So, to that extent, there is a risk, but that is not substantial in terms of the total top line as well as the total revenues of the Company.

Prerna Jhunjhunwala: That is helpful. What is the status of CAPEX and are we on schedule to commission the spinning plant by September next year and weaving and knitting by fourth quarter?

Dinesh Nolkha: Yes, of course, we are very well on schedule. Already weaving and knitting will be done within this financial year itself and spinning by the 30th of September next year.

Moderator: Thank you. The next question is from the line of Vikram Vilas Suryavanshi from PhillipCapital. Kindly proceed?

Vikram Suryavanshi: One thing I just wanted to know about knitting division performance where volumes were substantially down. So, how do we see traction in that business and profitability in that business?

Dinesh Nolkha: That is still one of the major concerns at this point of time, but we are able to ramp up in spinning as well as the definitely weaving was already running at a good capacity level, but knitting is still not picking up to the level expected. We are not seeing very good demand in that particular segment, as we are doing only greige fabric. This is also hindering us from selling it to the leading companies. So, this is definitely a cause of concern for us and we are not also seeing too much traction on this side, but this is in the overall value addition or overall EBITDA margin, the percentage is low on this. So, it may not change the margins substantially. But yes, still it is a cause of concern.

Vikram Suryavanshi: Because relatively the weaving has done quite well. So, I was just wondering, is there any specific reason for the knitting not doing well. Will it continue for much longer time with as per your expectation?

Dinesh Nolkha: Actually, the knitwear did very well, in the year 2021. If you see post COVID, from September-October 2020, till the end of 21, this was doing very well. We had seen very good times in the knitting business and the volumes were extraordinarily high and the utilization level was also very good. At that point of time, the formal wear and the weaving business was taking a hit. Now, it is just above all of that. At the moment weaving and formal wear are doing well and knit business has impact. Of course, inner wear is domestic facing Company is still doing well, because of the domestic demand but from the export perspective, the demand is pretty low all this time. This may, a lot of it depends on how one of the major markets for this is the US and EU for this product, so we have to look into how these markets shape up going forward so definitely still cannot comment how it is going to shape up, we expect as the things settle down in both Europe and England, this utilization could substantially increase.

Vikram Suryavanshi: In this business do we directly do the export or do we sell it to the domestic garmentor and then they export it?

Dinesh Nolkha: We do direct exports, a lot of being exported directly to various countries all around the world. That was basically taken care of the finishing and garmenting is done in those countries, the likes of Bangladesh, likes of Sri Lanka, also in the Honduras, Korea, all these countries are buying all these kinds of products, the demand is pretty down over there as well.

Vikram Suryavanshi: Understood and what would be our share of captive use of yarn.

Dinesh Nolkha: It is about 25% at the moment. In the last quarter, it was about 20 to 22% normally it is about 25%.

Vikram Suryavanshi: And how is because you also mentioned about flexibility and having more spindles for the blended yard. So, to what extent we were able to do that, compared to normal range for our production of a blended yarn.

Dinesh Nolkha: We shifted about 12% of our capacity, means we normally have about 12-13% of our capacity on blended yarns and then so, we were running nearly 25% of our capacity on the blended yarns and we also had to be produced different kinds of blended yarns with different mixes. So, and it was taken up pretty well in the domestic market it was primarily for the domestic market.

Moderator: Thank you. The next question is from the line of Hiten Boricha from Joindre Capital. Kindly proceed.

Hiten Boricha: Sir, I have only one question, most of my questions have been answered. Sir just wanted to understand you mentioned inventory. We won't see any inventory loss going for as long as it won't come out very sharply. So, just wanted to understand what kind of inventory days we are having currently like how many days we hold inventory for raw material.

Dinesh Nolkha: Like raw materials as I told you that since we did not buy too much raw materials at the end of last season. So, we had very-very low base of raw materials. So, that was miniscule . For finished goods normally, normal kind of inventories for us is about 10 to 12 days that is normal. However, we were carrying about at the end of September end. We were carrying about 20 to 24 days inventory was there. That is the only difference.

Hiten Boricha: Okay, so we currently do not have any high-cost raw material or finished goods inventory.

Dinesh Nolkha: Raw material we do not know, but finished goods, unless is the prices let's say the prices were about in the range of about Rs. 70,000 a candy when the cotton season started and if we see and today it is about in the range of 65-66,000. So, there is no major change in the raw metal prices from the beginning of the season to now. But if suddenly the prices come down to let's say 52,000 or 53,000 which is about another 15-20% then definitely whatever inventory is there in the process in the raw materials, or finished goods will definitely have hit on that

Hiten Boricha: Okay and sir just one data point you mentioned cotton yarns price is Rs. 85 to 90 per kg in Q2. So, what was it in Q1?

Dinesh Nolkha: No, basically it is now what is the differential was asked for at the moment.

Hiten Boricha: Okay, what was it in Q2 and Q1?

Dinesh Nolkha: One would be to discuss about Q1 because Q2 was such a volatile quarter where sometimes even the raw cotton prices were equal to the yarn prices because Indian cotton prices were too high. That would not be the right thing to discuss. Yes in Q1 it was around levels of hundreds. Rs. 100 a kg and before that it was about Rs. 120 to 145 per kg.

Hiten Boricha: Thank you so much sir. if I have a question I will come back in queue.

Moderator: Thank you. Next question is from the line of Aman Madrecha from Augmenta Research. Kindly proceed.

Aman Madrecha: Sir as we are undergoing a CAPEX of around Rs.900 odd crores, so, can you please highlight like what would be the peak level of debt we are anticipating post the commissioning of the spinning capacity?

Dinesh Nolkha: Post the capacity expansion the total debt including working capital would be in the range of about Rs.1300 to Rs.1400 crores.

Aman Madrecha: And sir could you highlight like what would be the cost of this additional debt we will be taking.

Dinesh Nolkha: The cost of additional debt actually, the long-term debt which is around Rs.650 crores which we are taking. So, most of the debt which is going to be added is going to be the long-term debt and very small, short term debt. So, long term debt is at the rate of about around 7-1/2 to 8%. But that is since we are having some investment subsidies allowed to us. So, the average cost of the same would be around Rs. 3.50.

Moderator: Thank you. The next question is from the line of Phalguni Datta from Jetage Securities. Kindly proceed.

Phalguni Datta: Sir just one request, is it possible for you to share some website from where we can track yarn prices or any other source from where we can track it?

Dinesh Nolkha: Practically it is very difficult to track these kinds of prices because the information source has to be very reliable and means different companies have different policies, different markets, but at this point of time see there are many, many. I think daily editions of many newspapers that are just coming in various textile newspapers out there, but some of them are not at all reliable.

Phalguni Datta: And there is no website where we can directionally get a sense also?

Dinesh Nolkha: directionally, you can get a sense. I am not able to get the name, but if anything comes through, I will let you know definitely. Let me check.

Phalguni Datta: Fine sir and sir one more question on this the yarn price that you mentioned, Rs.373 for a kg for Q2. So, that is relating to what count?

Dinesh Nolkha: That is average count and the data is not available with me, but because we had cut down.

Phalguni Datta: You can tell me the other way sir. For 30s count, the yarn price that you mentioned was Rs.280. So, is now Rs.280. So, what would that have been in Q2?

Dinesh Nolkha: In Q2 that must have been about Rs. 325 to Rs. 330-335.

Phalguni Datta: Thank you. That's very helpful. Thank you.

Moderator: Thank you. The next question is from the line of Mr. Ajith an individual investor. Kindly proceed.

Ajith: I have two questions. My first question is regarding your new expansion program, the CAPEX cost is I think in the range of Rs.900 to Rs.950 crores. So, will you be able to just throw some light on debt drawdown schedule for that particular project like going forward? What is the debt drawdown schedule?

Dinesh Nolkha: You want the quarterly debt drawdown or you want to know?

Ajith: I mean, how much would have been drawn down until now and how much is expected over the next one quarter.

Dinesh Nolkha: Since the as I told in the earlier question that by the 30th of September, the debt drawdown was about Rs.20 crores only and in this quarter and we are expecting to draw down about another Rs.70 to Rs.80 crores.

Ajith: So, sir, my related question is that I mean, given that you must have seen various, many such cycles over the last 10-15 years, and obviously, you will have some visibility about the demand going forward. So, is there any chance or probability that the management may you know go slow or defer the bringing the new capacity on stream like are we staring at a possibility where a big new idle capacity comes in and there may not be strong cash flows through service the debt any such possibility, what would be your assessment sir.

Dinesh Nolkha: First of all, as you rightly said, we have gone through this kind of cycle in the past as well and the situation which happened in the last three four months was an extraordinary situation. We have never seen that Indian cotton prices are at a premium to international prices by 30 to 35% and that actually caused the demand destruction, the right reason for the reduction in demand and whatever has happened and the reduction in the capacity which we are seeing today is because of the extraordinary level in off course customers are ready to pay some premium because of the let's say of the quality as well as the service of the Indian spinners but not to this extent, so this is something extraordinary, which we do not expect to repeat next year. Cotton crop is good and going forward this kind of situation has happened only partially for a very small point of time in 2011 when the similar kind of situation happened and cotton prices shot up essentially. So, of course, we are not staring at those kinds of numbers. Now, coming to your second part that how do we foresee. We are adding a substantial capacity at very right and in that capacity, you can see that we are first adding the value-added segment which will in turn consume the yarn first. So, that is being added first and then the spinning capacity will come on stream.

At this point of time at least I do not foresee any substantial means change in any of our deviation in our plan. We are going ahead should use the plan and we are expecting to be on time and as far as demand is concerned, we have enough flexibility to change our products in this new project as well as we can do various kinds of yarn. Whole gamut of yarn, it could be cotton yarn as well as branded yarn, different kinds of products even the even the fancy products will be able to do in this. So, definitely, yes, if the situation is very severely down and we are in for a deep recession, I think we will still be able to manage reasonable cash flow which could service a debt. So, the debt cost is very miniscule in terms of the total cost of the project. Total revenue which we are going to generate out of this. debt service will not be the issue at all going forward.

Ajith: Okay, even if we were to assume that the full new capacity comes on stream by September of 2024, like you said.

Dinesh Nolkha: Yes.

Ajith: Okay. Understood sir. Sir my second question is, in this particular quarter, we noticed a trend like two quarters back when fiber companies were actually cashing in on the uptick in cotton prices and followed by yarn prices. At that time, we saw that the apparel and garment companies were actually bleeding maybe, but this quarter on the trend shows that it is like the other way around. Like for example, companies like Siyaram and Raymond, I am just giving an example. Because you probably I think, if I am not mistaken, you count them as your end customers. So, they have come out with very good performance and results. So, is it safe to assume that actually the domestic demand is quite robust? Because now going forward, they will do very well in the second half, assuming that the festive season and the marriage season, you know, comes in the last two quarters. So, is it safe to assume that the domestic demand is really very robust, but it's only that the fiber companies have unfortunately, got caught in a whirlwind or volatile cotton prices? Can we assume it that way? And also if you Just put things in perspective like what is the real you know, relation like an apparel garment company are doing well, but yarn companies are doing negative in this particular quarter

Dinesh Nolkha: First of all, the domestic facing Company with value addition are doing well and of course, with the brands attached to it and the names which you have taken have also branded their goods. So, in such segment, you do not reduce prices when your raw material prices, of course, bring it down slightly, but not to the extent when the prices come down. So, when the prices have gone up in last one and a half years, they were able to increase their prices not to that extent, but now, they are able to maintain their prices and the prices are coming down. So, it is a cycle where they get benefited and plus domestic demand is definitely good I completely agree with you on that part, that domestic demand is doing very well and domestic facing companies are also doing well and we expect them to continue to do well in the coming times as well. This is definitely there.

Secondly, why fiber companies or young companies are losing it is not at all related with the apparel manufacturing companies it is related with our own dynamics of the cotton prices as well as the international demand. As on today, nearly 30 to 35% of the capacity in the spinning is made for export purposes, direct or indirect, means export which has been when the garment manufacturing companies than the Indian companies by the yarn and exported out as well as direct exports of yarn. So, when there is a substantial demand reduction on the export front that excess capacity is made available for the domestic market. In my commentary itself I spoke that additional capacity which was available actually was to be sold in domestic market and it was pushed in domestic market that caused the reduction in the margin that is the one of the prime reason for reduction in the margin and secondly, why international demand was lower was when the customer saw that prices are falling from if you see the NYSE futures have come down from 156 cents to a level of 85-86 cents a reduction of 40 45 cents. Customers tend to resist to buy they want the prices to settle down and then only want to buy and in the meantime they are reducing their inventory level. So, the reduction in the demand was let's say clubbed together due to less demand plus falling prices and in turn the Indian spinners here was pushing off their capacities in the domestic market will reduce the margin. The relationship rather is the other way that when the domestic apparel companies are doing well, and they have a good demand, the yarn prices should increase in a normal scenario and then the demand of the yarn should also be better.

Moderator: Thank you. The next question is from the line of Phalguni Datta from Jetage Securities. Kindly proceed.

Phalguni Datta: So, this is a broad question. So, what is stopping the domestic cotton prices from falling badly given that as it is there is lower yarn demand and the international prices are lower? So, why is the domestic cotton price not fallen as much as they should have to get into parity with international prices?

Dinesh Nolkha: Actually, this is a question which we also want to understand at this point of time because this is also quizzing most of the industry players. We are expecting that cotton prices should fall substantially because our cotton prices are definitely higher. So, export is ruled out number one and our minimum support price is also quite low. So, still we are too far off from the minimum support prices. So, definitely we are expecting the cotton prices to go down. But the arrivals are not picking. The main problem today is in the initial month of October because of a lot of festive season and initial rain in the first 10-15 days the arrivals have not picked up, cotton arrivals in the mundies have not picked up. We are expecting it to pick up in next 15-20 days substantially and once the cotton arrival picks up, definitely prices must fall down. This is the expectation and hopefully we do not have another year where the projected cotton is not to the extent what it was supposed to be then it is difficult.

Moderator: Thank you. Ladies and gentlemen due to time constraints the management will take one last question. It is from the line of Abhineet Anand from Kindly proceed.

Abhineet Anand: Yes sir, you did mention that in Q2 yarn the price at which we realise was 373 and 30s con was 325 odd. So, is it fair to understand that our product mix on the yarn side is like at 10 to 15% premium all the time.

Dinesh Nolkha: Basically, this is not a premium. Basically, we produce different kinds of products, different kinds of products are being made out of by us, like in the fine count ranges we go up to 60s and 80s count. So, this price will vary as per the product mixes.

Abhineet Anand: So, but ideally if it has to let's assume in a particular year there should be some because we make different types of yarns as you said in terms of count it is not the 30s it could be 80s and 60s as well. So, if we get 30s count price, we should assume that our product profile would be earning more than that, is that a right assumption?

Dinesh Nolkha: Yes, definitely will be more than that, because we have different product profile much higher different kinds of products being made out. So, definitely it will be higher than that is but how much higher it is something which I cannot quantify. It depends. Also, as I told you in the initial commentary that we had cut down on some low margin product which were making lesser margin. So, that is also reflected in the average price because average price then went up accordingly.

Abhineet Anand: Okay. Secondly, this new capacity that we are putting up. Presently our capacity you have mentioned as a 12% blending facility. So, the new one has a higher blending facility or how is it?

Dinesh Nolkha: Yes, of course, today our total capacity, we can do blending in about 20. We did blended in more than 20%. This will further increase substantially initially. New facilities completely flexible to do the blends as well. So, additional capacity, which is about 30% can be on the blend as well.

Abhineet Anand: So, the whole capacity could be having a blend you mean to say?

Dinesh Nolkha: Yes, we can do the blended yarn as well on that.

Abhineet Anand: The whole capacity. Right 100% of that.

Dinesh Nolkha: Yes.

Abhineet Anand: Thanks sir. Those were my questions.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I know hand the conference over to Mr. Awanish Chandra for closing comments.

Awanish Chandra: So, sir very quickly one thing we are completely out of time. On the cotton price and international cotton price parity, we are still 10% off. So, in your view, do you think we will go down 10-15% and we will get the parity or international cotton price will go up with demand recovery and then Indian market and that way we will get parity which possibility do you see more?

Dinesh Nolkha: Awanish ji both ways.

Awanish Chandra: But this cotton prices are still stagnating 60 to 63 currently to 65 can be so that is why I am asking.

Dinesh Nolkha: Exactly where we have the new York futures have gone down in between to 70 to 73 cents also and then bounce back to 85 cents and from 100 cents we have come down to 94-95 cents. So, I think we will reach somewhere in the middle to match the parity. Anyway we cannot go below MSP so that is we do not expect the ICEs futures to go below the MSP level as well.

Awanish Chandra: Okay, sir, thank you very much Dinesh sir and Maheshwari sir for spending your valuable time and providing us this opportunity to host the call. Sir any final comment before closing.

Dinesh Nolkha: Sure. I would like to thank everyone for joining on this call and I hope we have been able to address all your queries. For any further information kindly get in touch with our finance team for our investor relation advisor. Thank you once again for taking the time out to join us for the call and we thank SMIFS and Awanish for hosting this call.

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