



“Nitin Spinners Limited Q4 FY-21 Earnings Conference Call”

May 11, 2021

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FINANCIAL OFFICER, NITIN SPINNERS LIMITED**



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Moderator: Ladies and gentlemen good day and welcome to the Q4 FY21 Earnings Conference Call of Nitin Spinners Limited. This conference call may contain forward looking statements about the company which are based on the beliefs opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

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. Dinesh Nolkha – Managing Director. Thank you and over to you sir.

Dinesh Nolkha: Good afternoon to everyone and thank you for joining us on this Q4 and FY21 earning call. I hope you and your dear ones are keeping well and safe in this unprecedented time. I hope you had a chance to look at our results and presentation uploaded on the stock exchanges and our company's website. Along with me on this call I have Mr. P. Maheshwari – Chief Financial Officer and SGA, our investor relation advisors.

Let me begin by opening remarks by giving a brief note of the industry and company and then Mr. Maheshwari will take you through the financial highlights for the quarter and full year ended 31st March 2021.

Indian textile sector is a second largest employment generator in the country after the agriculture sector and India is the fifth largest exporter of textiles and apparels in the world. The textile industry contributes nearly 7% to the overall industrial output and 2% to the GDP. It also contributes 12% to the export earnings and holds 5% of the global trade in textile and apparels. India is the second largest producer and exporter of textiles after China and fourth largest producer and export of apparel after China, Bangladesh and Vietnam. Superior quality of produce makes companies in India leader in exports. So almost two thirds of India exports of textile is to US and the EU countries.

Nitin Spinners is India's leading manufacturer of cotton yarn, blended yarn, knitted fabric and finished woven fabrics. The company's leadership in cotton and blended yarn fabric manufacturer is driven by continuous investments in latest technologies, resulting in delivering international standard quality product, strong R&D on developing value-added products combined with systematic processes and robust distribution network has allowed this company to create value for both global and domestic client base.

On the export side we have presence in 60+ countries and witnessing robust demand from various countries. I'm thrilled to share with you that we have achieved export turnover of more



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than Rs. 1,000 crores in the last fiscal year. That is over US\$ 140 million. We have achieved high productivity and efficient utilization on the back of investments in R&D and cutting-edge technology through our state of art manufacturing facility, moreover our efficient project execution of large projects lead to saving in capital costs and faster utilization of our assets.

We have achieved highest ever revenue, profits during the difficult times along with establishing new product line of blended yarns and the finished woven fabrics. Going forward we are looking to consolidate our existing products and capacities and we will strive to maintain our top line growth momentum by optimizing capacity utilization and we shall continue to add value-added products. We will go for some debottlenecking of our existing manufacturing facilities to increase our production base and shall definitely continue to explore newer markets across the geographies. We are just at this point of time closely watching the situation of pandemic and government policies like PLI Scheme to chart out our future growth plan. Now I would request Mr. Maheshwari to give the financial highlights for the quarter and full year ended 31st March 2021.

P. Maheshwari:

Thank you MD sir. Good afternoon everyone. Thank you all for joining the call. I would like to touch upon the financial highlights for the quarter and full year ended 31st March 2021. Revenue for Q4 FY21 increased to Rs. 512 crores from Rs. 380 crores same period last year, up by 35%. Revenue on q-on-q basis were up by 10% and for the full year the revenues was up by 13% from Rs. 1,438 crores to Rs. 1,624 crores. Gross margin for Q4 FY21 stood at 45.1% as compared to 39.2% in Q4 FY20, that is an increase of 590 bps; the gross margin increased due to better realizations coupled with volume growth. Our business recovered post second half that is in Q3 and Q4 and led to uptick in our gross margin. EBITDA for the quarter were Rs. 104 crores as compared to Rs. 54 crores in Q4 FY20 and Rs. 74 crores in Q3 FY21 that is an increase of 30% on q-on-q basis and for full year EBITDA grew by 51.5% from Rs. 170 crores to Rs. 257 crores. Profit before tax increased from Rs. 10 crores in Q4 FY20 to Rs. 66 crores Q4 FY21. Profit before tax for the full year grew from Rs. 36 crores in FY20 to Rs. 107 crores in FY21. Profit after tax increased to Rs. 43 crores in Q4 from Rs. 7 crores same period last year. PAT margins for Q4 stood at 8.4% and PAT for the full year grew from Rs. 24 crores to Rs. 69 crores in FY21. Cash EPS for the quarter was Rs. 11.55 per share as against Rs. 5.50 in Q4 FY20. On annual basis the cash EPS was Rs. 28.44 per share in FY21 against Rs. 18.60 in FY20. Total debt at the end of March 2021 stood at Rs. 961 crores and at the end of March 2020 stood at Rs. 1,040 crores that is witnessing reduction of Rs. 79 crores. Long-term debt to equity ratio reduced from 1.4x to 1x. Cash flow from operating activities at end of March 21 stood at Rs. 155 crores against Rs. 98 crores last year. I am happy to announce that Board of Directors had proposed a dividend of 15% that is Rs. 1.50 per share for FY21. Now I open the floor for questions and answers.



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Moderator: Thank you very much. We will now begin the question answer session. The first question is from the line of Chirag Lodaya from ValueQuest.

Chirag Lodaya: My first question was on current demand environment. If we can throw some light on how is export as well as domestic demand trending currently?

Dinesh Nolkha: Mr. Chirag as we all know that second wave of COVID19 has hit all of us very badly in our country specifically. So domestic demand at this point of time is slightly affected because of this. As you all know we are an intermediary producer product supplier, and we are not selling in directly. As such, till the time downstream activities are not closed, will not be impacted much and anyway we have exports, they have more than 60%. If you see our last numbers also our exports are nearly 62% for the last year. Definitely that part of the business is not affected at all and for the rest of the business we are trying to see that we divert most of our businesses towards export till this pandemic continues in our country and we will have to see and watch how the COVID happens here and how long the lockdowns prolong in our country. That is how the situation is.

Chirag Lodaya: But is it fair to assume that export demand will continue to remain strong even in this current economy?

Dinesh Nolkha: The demand all over for our business is pretty well even in India as well as overseas. Because of this lockdown only it is slightly getting impacted otherwise demand is pretty robust with no issues at all with demand and most of the countries in the export market are now opened. We do not foresee any issues there.

Chirag Lodaya: My next question was on current yarn prices. If you see last 3-4 months yarn prices have shot up sharply and they are at all-time high. At the same time corresponding cotton prices have not gone up as yarn prices. This increase in yarn spread, is this number sustainable going ahead or how one should look at this number?

Dinesh Nolkha: These yarn prices what it has been projected in the media that they are all-time high, and they have gone up over the roof; that is if you see the average realization part of it, when you go for average because this is gone means one particular contract done at a higher rate and that is being shown in the media or whatever by the downstream suppliers should not be considered. Average price realization in February-March have remained more or less similar to what has happened in the April and May at this point of time. Now coming to your second part of the question is that whether this is going to sustain for long or whether this particular differential in the cotton prices to yarn prices will remain same levels. Here I have few things to just tell you which will let you understand the situation. In past so many years we have seen that there was lot of capacity being built up in India and every year we used to see a growth of about 6% to 7% in the spindle capacity and about 4% to 5% around in the weaving and knitting capacity



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in downstream. We were growing but we were not consuming that much or maybe we were not exporting to that extent. This situation has reversed in last financial year. In fact, some capacity, smaller capacity, unviable capacity has gone down due to which the demand supply situation is pretty balanced I would say or maybe more tilted towards demand. The demand is more and slightly supply is less and anyway we are not seeing any new capacities coming in going forward at this point of time because of pandemic and people are not too much keen to invest at this point of time in most of the capacities in textile. That is why we are seeing more margin which is reasonable or maybe a slightly higher than reasonable margins. This particular scenario cannot continue forever but for the near foreseeable future till the capacities which may take 1 or 2 years down the line.

Chirag Lodaya: This 20% margins which we achieved in Q4; is this a sustainable number? That is the right way to look.

Dinesh Nolkha: I would request you to look at the yearly margin levels. That would be a much better way because one particular quarter you may see cotton coming in at very-very low prices. Initially the cotton was at low prices then the government jumped in and they jacked up the prices so then they increased the prices to very high levels means once the government came in, they increased that prices by 15% to 20%. This kind of margin levels, definitely we strive to maintain these kind of margins, but this should not be made as a benchmark. We feel that benchmark margins for spinning are about 16% to 17%, they are on 16% levels and plus something for value additions. Value addition like woven and finished definitely has higher value margins. Of course, whenever a company achieves a particular margin level it strives to maintain that margin but that should not be made as a benchmark.

Chirag Lodaya: My second question was on inventory. If we see generally December to March-April is a period when you guys procure large part of your raw material requirement for the season. In terms of inventory how are we placed?

Dinesh Nolkha: Normally we have a very prudent inventory policy. We do not go overboard any point of time, even if you go and see last 6-7-8 years also, we have followed a prudent policy where we do not go overboard on the raw material side specially and definitely, we try to maintain minimum possible inventory on the finished goods side. We normally have a policy that we keep, have some buffer stock and then above that we do keep the inventory as per our order book. Normally if it's there we have inventories in the range of 3 to 4 months. So that was the situation of, same thing was there at this point of time also.

Chirag Lodaya: With this expanded gross block what kind of peak sales we can achieve, and can we achieve this year itself?



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Dinesh Nolkha: If there is no COVID disruptions mean subject to COVID disruption, how long is the COVID disruption. Till now we have been doing pretty well in all our operations, all of our plants are under operation so there is no disruption. Last year we had plant stopping because government announced lockdown where no industry was supposed to operate. This year industries are operating. If there is no major disruption due to COVID I think we should be able to achieve the peak turnover this year. It should be around Rs. 2,000 crores.

Moderator: The next question is from the line of Awanish Chandra from East India Securities.

Awanish Chandra: In woven fabric segment, you have shown you have 30 million capacity and we have hit 23 million. Is there scope of fairly utilized during this year, this financial year?

Dinesh Nolkha: Awanish ji, normally we have a 95% to 97% utilization levels. If there is no disruption due to COVID we are out there to achieve this kind of capacity means there is no issues as far as sales is concerned, we are not seeing and we are seeing good demand coming out in this particular segment. We have been able to fairly establish our products in last 1 year although it was very tough time, but all our team worked very well to establish in the various brands Indian and international brands. We don't foresee any issue in achieving the top capacity, if there is no lockdown that is one particular thing and secondly this particular business most of our customers are in domestic markets and they do garmenting and if the lockdowns are severely affecting the garmenting industry, then definitely some capacity may come down in this particular segment otherwise definitely will achieve it.

Awanish Chandra: To achieve this 90%-95% capacity, we will be utilizing our own yarn capacity, or do we have other plan because in yarn and fabric anyway we are 100%. To achieve that what would be the strategy for the yarn and fabric procurement?

Dinesh Nolkha: As a strategy of the company, we are not at all buying any outside yarn. We only buy some products which we are not manufacturing at all which is miniscule, maybe about 1% to 2% of our total raw materials that is what we buy otherwise normally we use our own yarn. As far as our yarn is concerned, we are trying to debottleneck some of our plants. We are putting up some additional spindle as well as putting up some additional preparatory to increase the capacity. That will again increase our capacity and maybe balance the requirements, the additional requirements of our weaving and knitting segment as well.

Awanish Chandra: Any ballpark number for CAPEX in FY22 and FY23? How will it add capacity to the existing?

Dinesh Nolkha: For this FY22, we are planning a CAPEX of about Rs. 30 crores; primarily in our spinning also small part in our fabric division. That is what we are planning. For FY23, we have not yet planned as such. It is still on the drawing board and we are just waiting for the government policies to come out and the COVID to play out so that we get a sense of how the demand is



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changing, what is the disruption, what is the news because as we see any disruption, we see that the demand scenario in particular segments also keep on changing. We have to just study that out and then we can work on the FY23 numbers.

Awanish Chandra: These 30 crores will add how many spindles? May be 20,000-25,000?

Dinesh Nolkha: No, it is not possible to add 25,000. We are adding about 7,300 spindles we are adding and some capacity we are adding on small capacity debottlenecking we are doing on our printing and dyeing side. Here we can increase our dyeing and printing & processing. So that part we will be doing. Both the things will put together about 10-30 crores.

Awanish Chandra: One last question on PLI. Whatever data or media reports are suggesting, PLIs coming mostly in the man-made segment. Do you have any information? Is there any PLI on cotton segment? Anything you can throw light related to PLI?

Dinesh Nolkha: You are very right, when the initial announcement was made the basic objective of PLI was to focus on the products which India is importing and the products in which there is a big international market, and we are weak in that. In that sense man-made fiber segment is weaker in the sense, the ratio of man-made fiber production and the cotton yarn production is skewed towards cotton yarn. That was the initial objective, but lot of presentations have been made to the government that cotton yarn and cotton textile is the strength of this country. We are a leader in cotton yarn manufacturing as well as exports in the world market. We hold nearly 30% of the world market share. The focus that this sector should not be left behind. Of course, this is now for the Textile Ministry to decide how they go about it but as we are understanding that definitely garmenting of cotton and cotton products will also be considered for this particular PLI. It was supposed to be announced in the end of April, but I think due to this raging pandemic it has been withheld at this point of time.

Moderator: The next question is from the line of Prerna Jhunjunwala from B&K Securities.

Prerna Jhunjunwala: Just wanted to understand the current scenario in terms of the spreads that you get now as compared to the same that you got in the fourth quarter? How has Xinjiang issue helped improve the spreads and whether it would be one of the major reasons for increasing spreads and how long it can take to really resolve? Any color on that would be helpful.

Dinesh Nolkha: Prerna ji, I will first answer your second part, there about Xinjiang Cotton. What has happened is as you all must have read in the media as well that Xinjiang Cotton products have been banned or the European and US, most of the brands have decided not to buy any products made out of that particular cotton. What has happened is, China now if any Chinese company is there, they will have to first either buy any other cotton and spin it and then do it and then they have to certify that so they will have to change their product profile. That is one thing



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which they will have to do. Now at this point of time what is happening is most of the Chinese companies are diverting their Xinjiang cotton to the domestic market. It is purely just a shift, and it is going to not majorly change the overall scenario of the world market or world situation. It's a disruption you can say for some small point of time so that is happening and that will play out. That is not extraordinarily helping Indian yarn industry as such rather I would say the Indian cotton, raw cotton industry is being helped because most of the Chinese companies are now preferring to buy the Indian cotton and they will try to do instead of their own Chinese cotton and which we are also seeing the high number of cotton exports from our own country. This is not going to majorly impact any margin or any of the financial numbers. It is only just going to create a slightly higher demand for our companies in terms of yarn and cotton. Now coming back to the margin part; if you see margins of most of the spinning companies, started to go up from November onwards once the effect of pandemic was over and everybody came into full production. This was because the demand remained as it is, but the production went down. As I explained earlier also that slightly at this point of time in demand-supply scenario, demand is slightly I would say more than the supply what we are getting in the Indian market and also, we are seeing good demand in export market because you have to see that our cotton are slightly cheaper than the international cotton which has been the case for most of the parts in last decade except 1 or 2 years like 2019 & 2020 otherwise normally our cotton is cheaper than the international cotton. That has also helped us, that gain our international market so both the things put together is we are having a reasonable market, reasonable margins. Of course, that is also aided by the cost inflation which has happened in past, and we were not able to pass it on to our customers. So, all put together we expect that margins, what was there in Q4 should remain as it is in Q1 of this financial year, provided we have to also see that there is no major disruption due to lockdowns in domestic industry, if it is badly affected definitely the demand which I am talking of will go up all altogether.

Perna Jhunjunwala:

Now if Xinjiang issue is not one of the driving factor for improvement in spread it is actually demand-supply. Do you think that investment in spinning industry should now start happening because if spreads appear to be sustainable for the time being and the demand is higher than supply so supply should start kicking in as there should be some capacities announcement across the industry to support the increased demand etc. Do you think as an investment opportunity spinning now becomes attractive with higher ROC businesses because often improved margins and investment becoming attractive?

Dinesh Nolkha:

Yes of course, at this point of time it looks like this but as we all know banks are not yet ready to accept this at this point of time and textile sector, they have suffered a lot of issues. At this point of time, till now I have not seen any major capacity announcements. Whatever has been done by most of the companies at large is done by the large companies and that too with their own internal accruals whatever they can do means in terms of their capacities not anything major is coming up at the moment.



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- Prerna Jhunjhunwala:** Despite this appearing sustainable capacity additions are still reluctant is what I take from this.
- Dinesh Nolkha:** Yes.
- Prerna Jhunjhunwala:** Could you just help us understand your processing business as well in terms of where your utilizations are and any key challenges or opportunities that you see in the processing segment because that appears to be one of the weakest segments in the value chain as we have read in the past for the industry. Could you please highlight there what is the opportunity there and how it can re-improve the fortune of Nitin Spinners or as a sector if we invest more in that area?
- Dinesh Nolkha:** If you see we have commercialized this particular capacity in January of 2020 and as soon as we were starting to ramp it up and market this product, we saw immediately COVID in the month in first quarter of the fiscal. We had to restart everything with our I would say all the effort which we have done in the past has to be restarted but we have been able to establish first of the most important part within this industry is establishment of the quality. We had very good professionals with us and we had very good marketing team which were able to establish our products in very short time means if you see most in most of the living industry it takes a lot of time to establish the quality of the product and the market so that we have been able to do at this point of time. The only challenge at the moment lies is the improving the realization and establishing into most of the leading brands and most of the international players. So, we have not been able to fully tap these brands and most of the bigger brands ones then the larger quantities because of COVID. So that is a huge opportunity which still lives with us to improve the realization in our weaving division going forward. At this point of time, we were able to means in the Q4 of last year we were able to utilize nearly 74% of our processing facility and since this is made to order product and we do not make any product which is going to go for stock. So, this was what you were able to get from most of the customers. So, we are trying to improve upon that side. So definitely that will improve and as this improves although our weaving division and as well as processing division are equally balanced. So whatever capacity is left after this normally it's sold in grey market also in international market as well as in India. We are trying to see that we come out of this grey sales business completely and complete fabric value-added. This is a process where we'll be able to increase our realizations, improve our brand visibility as well and can also see that the value addition is also on the high-end side going forward.
- Prerna Jhunjhunwala:** My last question is on supply chain, do you think the domestic supply chain is adequately spiralled or is it dry when the lockdown opens, we see a demand coming back very sharply after the lockdowns open up?



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Dinesh Nolkha: Basically, as you also said in your first question that the prices were rising, and everybody reduced margin sustenance. Most of the players in the downstream industry have also the similar view and due to which nobody had stocked very good quantity of yarns or I would say fabrics because everybody was feeling that these prices are going high, and we should see how it plays out and then go for it. We were seeing very good robust demand from the retail going forward. So, we feel that at this point of time there is not too much of inventory in the process. Also, as you can see maybe 50% or 60% industries are running so all the inventory is slowly-slowly drying up. Only thing is inventory is going to go and pile up at the retail sector, unless we see a lot of online sales. This is something which has to be judged over a period of time. Last year it was completely misjudged, and everybody thought maybe we'll not see that kind of demand which we had seen from September, October till December nobody anticipated, and all the inventory was out. So, we don't know this time, but we are seeing that it all depends how much online sales happens because retail is completely closed at this point of time.

Moderator: The next question is from the line of Mohit Baheti from L&T Mutual Fund.

Mohit Baheti: My question is on the expense part, could you please let us know why we have seen a 20% kind of increase in our employee cost and OPEX this year?

Dinesh Nolkha: As you all know our capacity he has been added. So, we added I mean if we compare with last year with FY19-FY20 we were in the process of adding the capacity. So, in different parts we added our capacities, spinning part was added in June and then weaving part was added in the month of October and processing was added. So, all the operational costs which was related to them were them gain nearly full during this particular year. That is also reflected in the increase in the production numbers which you have in quantity terms which we've also given in the presentation. That is the prime reason for increase in the operational cost as well as employee cost.

Mohit Baheti: So why I was asking this was we have seen a cost 6% increase in gross margin and like 4% increase in EBITDA margin. So, going forward when you say that you will achieve 2000 crores turnover at your full capacity what should be a stable EBITDA margins we can consider?

Dinesh Nolkha: Stable EBITDA margin for the yarn industry in a long-term basis is about 14% to 15% and on the fabric businesses it is about 18% to 23%. This is a sustainable margin for the long-term and any other margins or any other extraordinary situation demands supply gaps or anything that is addition to that, this is what normally it is. We'll have to see how lockdown, restrictions, demand supply scenario going forward and accordingly the numbers has to be there.

Moderator: The next question is from the line of Abhishek from KAM Capital Limited.



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- Abhishek:** I wanted to know in the budget 2021; Government has imposed 10% customs duty on import of imported cotton. How is it going to affect the competitiveness of the business in international as well as domestic market?
- Dinesh Nolkha:** First of all, as you all know Indian cotton is cheaper than the international cotton, so we normally do not import the cotton. Only the cotton which is not available in our own country the likes of Giza, Supima and some contamination free cotton are only imported. For them as we all know 10% custom duties imposed but if we do export the duty is free, we can do on advanced licensing basis. On all our exports businesses whatever we do there is no impact of basically only the small part of value addition which we do on that we do not get drawback which is about 1.9%. Let's say if you do 40% value addition then 0.8% is a loss which we do on that particular which we are able to exclude on the price part. Coming to the domestic part, yes definitely this particular when it comes into when somebody wants some Supima yarn or Giza yarn or some contamination free yarn and sold in India to various brands and others then it becomes expensive, and we have to add that particular cost for that. At this point of time since these are specialized products most of it is passed on.
- Moderator:** The next question is from the line of Vikram Suryavanshi from Phillip Capital India Private Limited.
- Vikram Suryavanshi:** Can you share what is the mix of grey and finished volume in total 23 million meters what we have done in terms of fabric sale, what is the mix of grey and finished?
- P. Maheshwari:** Woven segment we sold 144 lakh meters and 83 lakh meter grey.
- Vikram Suryavanshi:** And in knitted fabric sector, what would be our maximum production capacity, so it's in your good year, last year we produced around 7,375 tonnes but what is our maximum capacity in knitted fabric segment?
- Dinesh Nolkha:** Maximum capacity in knitted fabric segment is about 8,500 tonnes. Installed capacity is about 9,000 tonnes and we are able to utilize about 90% to 93% of that which is about 8500.
- Vikram Suryavanshi:** Last question, what would be our captive consumption going ahead as our weaving capacity increases? I think broadly we are using around 25% of our production in house so how that will look like in next 2 or 3 years when we have reached the maximum capacity per woven fabric or knitted fabric, what kind of in-house consumption of yarn will be there?
- Dinesh Nolkha:** At this point of time last year, it was about 24% and we see that if we run all weaving and knitting at full capacities, we achieve the top capacity then it should be about 28% to 29% levels.



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- Moderator:** The next question is from the line of Parin Jhaveri from JNJ Holdings Private Limited.
- Parin Jhaveri:** If you can just highlight on the yarn spread for Q4 FY21 and for Q4FY20?
- P. Maheshwari:** Q4 FY20 average yarn realization was 216 per kg and in this quarter, it was about 270 per kg.
- Parin Jhaveri:** What would be that in Q3 FY21?
- P. Maheshwari:** FY21 Q3 it was about 225 per kg.
- Parin Jhaveri:** What was the inventory gain in this quarter which you have got?
- Dinesh Nolkha:** In fact, inventory gain here is minuscule in this because as normally in this quarter we start buying cottons. I think you're talking about the raw material inventory gains.
- Parin Jhaveri:** Yes.
- Dinesh Nolkha:** Raw materials normally we start buying in the beginning, the cotton season itself starts in November and then way forward we go and buy the inventory. So, cotton prices for initial one or two month it was on the lower side before the Government of India started their MSP operation. Since then, they are more or less remain stable from January to March. So more or less inventory I would not say there are any major inventory gains during this particular quarters.
- Parin Jhaveri:** The second question from my side is basically since we target reaching a peak capacity utilization this year which is FY22 when would we start thinking of any other CAPEX and probably that would be in what area maybe spinning, weaving or maybe a bouquet of whole things?
- Dinesh Nolkha:** First of all, as you have seen in past 8 to 10 years if you see our trackers in past 8 to 10 years, we have continued to grow at CAGR of about 17% to 18%. If you have to continue that growth path definitely, we have to go grow going forward. So, it's on drawing boards already we are working out what we need to do, what are the areas where we could focus but primarily, I mean definitely its Government Schemes and this COVID will play an important role in that. We have to also see those parts but primarily we feel that still we have a lot of scope to grow in the areas where we are already there, like in spinning, weaving, processing as well as knitting. These are very large areas and still our capacities are not very big that we cannot sustain them. These three areas where we are existing, and we have our core strength. We'll definitely like to grow in these areas itself at the moment. So that is what we are thinking and then further going forward let us see the kind of policy framework which comes into we decide that.



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- Moderator:** The next question is from the line of Ayush Mittal from Mittal Analytics Private Limited.
- Ayush Mittal:** I have couple of questions, given the good times that the company is in or given these status today and as I can see that you have not planned any major CAPEX is there an intent to repay a large part of debt currently that we have and come down to certain debt equity ratio something on that thing is there any action plan?
- Dinesh Nolkha:** Still whatever additional cash which we have we will continue to repay the debts but here I want you to understand basic one thing is that we have two parts of debt. One is the term loans which we take for our capital expenditure, putting up the plants and machineries. This is lot of concessional rate of interest and has to be repaid as per the schedule only. The concessional average cost of those funds is about 4% and that is a scheduled payment. If you see our annual repayment is about 110 to 120 crores depending on every year. So, we continue to repay those debts. So, part of the cash generation goes in for that and second part is the working capital. So, working capital part definitely till whatever money we generate, we park the money in our working capital, and we reduce our debt for that particular portion till we plan any CAPEX.
- Ayush Mittal:** What is the cost for working capital?
- Dinesh Nolkha:** The working capital cost is about 7.6% on an average.
- Ayush Mittal:** And overall cost of funds would be for us what and what is the gross debt?
- Dinesh Nolkha:** Around 5.3% to 5.4% blended costs are about this much.
- Ayush Mittal:** What is the gross debt?
- Dinesh Nolkha:** Gross debt is 961 crores on FY21.
- Ayush Mittal:** What do we plan to do with the cash flow that we are generating good cash flow, still we don't have those scheduled payments?
- Dinesh Nolkha:** We have quarterly payment so we repay 110 crores every year out of that and then we have working capital of about 280 crores in which the money can be parked in those. That is again which we can reduce moving forward.
- Ayush Mittal:** Given that textile is a manpower intensive thing and given what is happening with the COVID cases and everything, how our situation as of now and what challenges are you facing and how you overcoming them?



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Dinesh Nolkha: Definitely this is the most important and it's good that you asked this question. We have been putting a lot of efforts going in this particular part of the thing. We have nearly 5,000 plus people working in the company means of course all these efforts started when the first wave hit us. It has lot of efforts and a lot of SOP's are being followed to see that all our employees are safe, and are not affected by this pandemic. At this point of time, I'm very happy to tell you that we have less than 1% positive cases in our whole of our employees at the moment and we track them very religiously and also proper care is taken. We have also provided quarantine centers at our company campuses, also we have a COVID care centers. So, we take a lot of care on that particular part and till date none of our operations have been affected due to this. In fact, we help a lot to our local administrations also to take care of this particular thing. Also, in an around area we are taking a lot of care about this.

Moderator: The next question is from the line of Nirmal Shah from Seraphic Management.

Nirmal Shah: Just wanted to understand do you get the export incentives for your business?

Dinesh Nolkha: Export incentive is really minuscule for us. We get drawbacks; normally drawback is in the range of 1.9% to 2% for whatever the duties and taxes which is not rebated by GST. What is not covered by GST, so this is what we get at this point of time for all including yarns, fabrics, woven finishes everything.

Nirmal Shah: So new incentive scheme, are you eligible RoDTEP or not?

Dinesh Nolkha: Yes, we will be eligible for that.

Nirmal Shah: So, till last year you were getting RoSCTL benefits?

Dinesh Nolkha: No, we are getting MEIS benefit.

Nirmal Shah: But when it come that rebate of State and Central, it was replaced with MEIS, right? So, were you getting any incentives under any scheme?

Dinesh Nolkha: Yes, we were supposed to get but since the rate has not been decided for our businesses, we are not getting anything at the moment and that has not been considered also as well.

Nirmal Shah: My second question was in your opening remarks, you mentioned that a lot of small and mid-capacity is not in the market right now because of various issues for spinning. That capacity is out permanently, or you think that capacity will come back at a particular level at a certain lucrative margin level?



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Dinesh Nolkha: If they cannot come at this margin level then they will not come going forward as well. Basically, that is very short answer to your question. What has happened is there are various reasons why the capacities have gone down. We have reasons for obsolete technology also financial trouble and many companies that went into financial trouble. Some of the people have very good real estate so they don't want themselves, the owners don't want to start the companies back and also at some places they had migrant workers and workers have left and they are not able to take up that and again they are able to restart. For various reasons the capacity has gone down. If you see the data also from April to February IAP data announced by the Government, the cotton yarn production was minus 20%. So even if we take out the lockdown periods and others we never expect to this kind of downtick in the production.

Nirmal Shah: In current context of another lockdown the situation would still remain the same or you think this time that is far bigger possibility of that capacity coming on stream?

Dinesh Nolkha: No, in fact in during lockdown period to restart the capacities is technically not possible only, somebody is already operating. He's striving to see that they remain operative. Plus, if you see there are certain capacities in the NCLT which has been closed down, they have not been started. So those capacities will have to be, and no decision is being taken on those grounds as well. So, we do not see any major capacity coming back from those which has not yet started, if somebody had to start that had to start, they would have already started by January of 2021. If they have not started then I don't think they will be able to do now. Practically not possible.

Nirmal Shah: Just last follow up question to that, so if you can give some benchmark means how big that capacity would be of total industry capacity which is on the back burner right now some broad number if you would like to give?

Dinesh Nolkha: About 4% to 5%.

Moderator: The next question is from the line of Venkat Samala from Tata Asset Management.

Venkat Samala: Just wanted to understand you did maintain at the long-term margins would be around 14% to 15% in yarn but basis whatever is really happening now, I know it's a little fluid situation and it is very difficult to make conclusive remarks but just want you to understand, at this point in time what's your sense if the current margins would largely sustain or it will be higher than the usual level of margins that it will finally boiled down to or is it too early to call out anything?

Dinesh Nolkha: Here at this point of time we are seeing that margins are increasing and the reason for which I already explained demands as well as the international scenario. So, this kind of disruption cannot remain forever as we all know and also certain ultimately going forward some capacity will come up not in because normal capacity it takes about 12 to 15 months minimum to put up this kind of capacity. Once the capacity comes up and the destruction goes away it has been



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my experience that we come back to the normal margin levels. So, till that time we may continue to enjoy the additional margin. The industry will continue to enjoy that.

Venkat Samala:

With respect to demand if you could just highlight if there's any additional demand which has come in during this 6 to 9 months which wasn't there previously and therefore is an added a structural element which would there by continue to add up to whatever demand was already there?

Dinesh Nolkha:

The demand remains constant, the supply went down and for the demand side if you go into the sub segment, home textiles and the knitting segments or leisure wear segments, were growing pretty rapidly because when people were at home, they tried to spend on their home textiles as well as on the leisure wear which they wear at home and casual wear demand was lesser, if you subdivide the further demand side onto that way. So, the per capita demand increase or any gross demand increase was not there at least in the domestic. Only supply side disruption caused this effect and that is the whole if you can summarize this that supply has been lesser, demand is more or less remained constant which we were thinking that this will also go down.

Venkat Samala:

How have the yarn prices behaved in the last one and a half months? Since the time progressively lot of these States are coming up with the lockdown announcement. So how has the yarn prices behaved?

Dinesh Nolkha:

Yarn prices have come down since then if you see the peak levels. So, from the peak levels they have come down by about 4% to 5%. Cotton prices also came down by about 3% to 4%. Since because of COVID affect both the things are simultaneously, as we in last COVID we saw that cotton prices went down by about 40%. And yarn prices also went down by about 15%. This time the effect is not that severe, so cotton prices have gone down by about 3% to 4% and yarn prices also gone down by about 5%.

Moderator:

Thank you. Ladies and gentlemen due to time constraint that was the last question for today, I would now like to hand the conference over to Mr. Dinesh.

Dinesh Nolkha:

Thank you everyone. I hope we have been able to answer most of your questions satisfactorily. Should you need any further clarification or would like to know more about the company please feel free to contact us our team or our Investor relation advisors, SGA. Thank you once again for taking up the time to join us on the call. Thank you.