



“Nitin Spinners Limited Q3 FY-22 Earnings Conference Call”

February 04, 2022

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MR. P MAHESHWARI, CHIEF FINANCIAL OFFICER.**

**MODERATOR: MR. VIKRAM SURYAVANSHI – PHILLIPCAPITAL
(INDIA) PRIVATE LIMITED.**

Moderator: Ladies and gentlemen, good day and welcome to the Nitin Spinners Limited 3Q FY22 Earnings Conference Call hosted by PhillipCapital (India) Private 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 guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in listen only mode. 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. Vikram Suryavanshi from PhillipCapital (India) Private Limited. Thank you and over to you sir.

Vikram Suryavanshi: Good afternoon and very warm welcome to everyone. Thank you for being on the call of Nitin Spinners Limited. We are happy to have the management with us here today for question and-answer-session with the investment community. Management is represented by Mr. Dinesh Nolkha, Managing Director and Mr. P Maheshwari, Chief Financial Officer. Before we get started with the question-and-answer session, we’ll have some opening comments from the management. I will hand over the call to Mr. Dinesh Nolkha, for opening comments. Over to you sir.

Dinesh Nolkha: Thank you Mr. Vikram. Good afternoon and a warm welcome to all our investors, stakeholders, intermediaries and participants in this investor and analyst meets post our Q3 results. I hope you had a chance to look at our investor presentation that is uploaded on the company’s website as well as on the stock exchanges. As you all know we are a leading manufacturer of cotton yarn, blended yarn , Knitted fabrics and woven fabrics. And we have a cutting edge technology for manufacturing of all our products. our company is driven by continuous investments in latest technology. I would like to share in detail about our company’s latest expansion plans, which were announced at the end of the calendar year 2021. We are strategically enhancing our capacity across all segments that is, in our spinning, knitting and woven fabric business to meet the increasing market demands. In this expansion, we’re also increasing our blended yarn production capacity. This expansion should take place at our existing two locations, which we have in Rajasthan. The total cost of the project will be around 950, crores and will be funded by the term debt and the internal accruals.

From this expansion, we aim to capture the benefit of growing market opportunity in international and domestic markets and strengthen company’s position in the various products including the widening of our existing product portfolio. This project shall be eligible for the interest subsidy and other benefits under Rajasthan Investment Promotion Scheme. Nitin Spinners as you all know is a company having distinctly differentiated brand image and is

known for long standing customer relationships and globally accepted quality standards. The Effort for developing value added products has led to value creation for our customers as well as that has made us a preferred supplier to all of them. Regarding the market situation, I would like to share a few details that market situation remains quite encouraging and there is a strong demand in place as China+1 strategy is playing out along with other factors like government support and others. We endeavor to maintain the top line growth momentum by optimizing our capacity utilization and continue to add value added products and use of sustainable fibers. And as I explained, adding the various capacities and de-bottlenecking our various plants and others. That is all from my side. I will now hand over the call to Mr Maheshwari who is our Chief Financial Officer to give you the operating financial highlights for Q3 and nine months of this financial year.

P Maheshwari:

Thank you sir. Good afternoon everyone and thank you all for joining the call. I would like to share operational and financial highlights for the quarter ended 31st December 2021.

The revenues for Q3 FY22 increased to Rs.705 crore from 467 crores in Q3 FY21 that is an increase of 51% on Y-o-Y basis . Nine months revenue stood at Rs. 1,923 crores as compared to Rs. 1,113 crores in nine months FY21 that is registering a growth of 73% on year-on-year basis. This is our highest ever revenue for the quarter and cumulative revenue for nine months is higher than any of our full year revenue. Apart from operational efficiencies and value added products, increased selling rate due to higher raw material prices also resulted in higher revenue.

EBITDA for the quarter stood at 178 crores as compared to Rs.74 crores in Q3 FY21 that is increase of 140% on year-on-year basis. For nine months FY22 EBITDA stood at 484 crores as against 153 crores in nine month FY21. EBITDA margin for the quarter is 25.3% as against margin of 15.9% last year same quarter. The growth in international demand coupled with operational efficiencies and value added products resulted in better margins. The reported PAT is 93 crores as against 23 crores in Q3 FY21 that is 301% growth on year-on-year basis. On year to date basis, PAT was Rs.241 crores against Rs.26 crores in 9M FY21. EPS and cash EPS for the quarter was Rs. 16.59 and Rs.20.47 respectively.

During the quarter, we produced 18,087 metric tonnes of yarn as against 17,733 metric tonnes of yarn last year same quarter and out of that about 22% yarn is captively consumed for knitted fabric and woven fabric division. During Q3 FY22, we produced knitted fabrics to the tune of 1,715 metric tonnes, while it was 2,021 metric tonne for the same period last year. Woven fabric production for the quarter was 69.79 lakh meters against 70.5 lakh meters in Q3 FY21 whereas the finished fabric production was 59.29 lakh meters in the quarter as against 42.16 lakh meters in last year same quarter. We remain optimistic for the rest of the year with the outlook of strong demand going forward at domestic as well as global level and shall remain

competitive and roll out additional capacity within the committed timeframe. Now, I open the floor for questions-and-answers.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Sanjay Shah from KSA Securities. Please go ahead.

Sanjay Shah: Sir, my question was regarding the capacity expansion what we have taken on the card, there is Rs. 950 crores can you elaborate on that, what will be the total interest outgo on that after considering subsidy from Rajasthan and what will be the debt after we have repaid the debt as we are repaying the debt every year since last and even this year we have paid. So, after that adding to this what will be the net debt after completion of this CAPEX and when this CAPEX will be completed, when we'll see the commercial operation of the expanded capacity?

Dinesh Nolkha: First of all regarding the debt part, which you have just now elaborated, So, total debt on the March 22 will be about Rs.525 crore , and we are expecting that this expansion project which we have undertaken , we should be able to complete by September of 2023. So, if we have to give the numbers of March 2024, out of existing loans we will be paying out about Rs.250 crore in next two years and we'll be adding around Rs.650 crore going forward.,so, Our total long term debt at that point of time will be in the range of about, 1 of Rs.900 crore, So, that will be our debt profile.

And then second part was regarding the additional debt which we are taking we will be having at an interest in the range of around 7.5% . And we will be getting interest subsidy in the range of about 4.6% to 4.75% depending on the equipment's which are there. So, net debt cost to the company will be in the range of 2.75 to 3%.

Sanjay Shah: So, long term debt will be 900, what will be the short-term requirement because if our capacity will go up, production will go up and we will need working capital also?

Dinesh Nolkha: Yes. So, at this point of time at the end of this year, we are expecting that we will have a short term debt of about 230-240 crores and in this project, in this capacity expansion which we have just invested 950 crores, we have already kept basically our capital equipment cost will be on capital and civil cost will be about Rs 850 crores and 100 crores will be for the margin money for working capital only. So, we are expecting that apart from this 230, 240 crores we should be adding another 150 crore to our debt. So, around 400 crores of debt we are expecting to have by the end of 2024 for the short term.

Sanjay Shah: And net will be 1,300 crores?

Dinesh Nolkha: Yes.

Sanjay Shah: Out of that additional debt of 950 will be around at 2.75 and balance will be at around current level of around 8%, 9%?

Dinesh Nolkha: Yes, around 8% you can say, it depends on the kind, if it's export then it is slightly less. So, you can consider at 8% in an increasing interest rate regime we can consider easily 8%.

Sanjay Shah: My second question was regarding, that, I would like to have your opinion regarding rationale of increasing this capacity to this level, because we are increasing our yarn capacity by 46% vis-à-vis our knitted and woven around 20%, 30%. So, what will be the captive total percentage yarn we will be using plus what is the rationale of going for such a large CAPEX when we see that cycle of yarn spinning is bit cyclical. And we have never seen this type of margin in last 15 years correct me if I'm wrong, and do you see that this will sustain long where we are anticipating and going for this massive expansion?

Dinesh Nolkha: First of all, this is in line with whatever capacities we have been adding in past, if you see we have always been adding the capacity in our spinning business to the tune of about 25%. So, that has been our strategy if you see our last 10 years, every three years in a span of about three to four years time we add about this level of capacity, as per our base capacity. So, this time the base is higher and that's why it is looking bit larger. However, I would like to also highlight here that there is a very strong demand of Indian yarn, .. We are having a very big market share. Also that pie is increasing because of various competition and different kinds of challenges. So that way we are having an advantage. If you see the total data coming out of country, still our exports in KGs term are more or less same as 2015-16. Whereas there is a larger opportunity available to us, further domestic market is also growing very well. So, we have to capitalize on that. Regarding your question on, why we are adding more only on spinning and not adding on knitting. You also need to understand that, we have better expertise in this area. So, we are practically having various and much wider product profile in this Spinning. We are adding spinning, the new capacity which we are adding, we are adding about the existing polyester cotton blended fiber spinning capacity which will, more than double rather I would say, that has been very well accepted in the market. So, we had also seen various opportunities and accordingly, we are adding this capacity. It is not just say that we need to add the capacity just for the sake of adding capacity, it is a very well thought out capacity addition wherein we are considering this additional products also in this expansion capacity.

As far as our fabric and woven fabric business is concerned, in the woven fabric business. We are just nearly two years old as we started the finished fabric two years ago and adding 35% capacity within the span of two years is a good enough we should move step by step and yes going forward, we are very optimistic about this business. And once we are very well established post COVID we could further go in for capacity addition on that part also.



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Regarding your question of how much will be our captive yarn. I can just tell you that, at the moment we're consuming about 22%, at full capacity levels it will be about 24%. Post this expansion it will be about 21%- 22%.

Sanjay Shah:

So, sir the thing what we understood from the industry at large, especially our user industry garments and all, they reiterated that they have never seen such a large spread in spinning and this garment manufacturers are bleeding on that side because of high prices of yarn. So, in that perspective, what is your view sir, how do you see that going ahead?

Dinesh Nolkha:

Here as you rightly said in very initial part of the comments that this is a cyclical business and then cycles come and then prices go, demand comes and then again definitely come up. Here there is a major shift happening, we all need to understand and even our customers need to understand, there is a strategic shift happening in this, there is a huge demand coming in from the various competing countries who are manufacturing similar kind of products. Garments are also been made in various parts of the world. And accordingly we need to increase our prices. I would like to share with you that most of the domestic brands and retail chains which we have in India have already increased the prices of garments in the range of about 15%-20%. So, when this 15% to 20% increase is considered it more or less covers the complete cost of whatever additional spinning cost, spinning prices or yarn prices have been added, adequately covered up. Now, the important part is, that why this is not being done in the export market. Why it is not being done with the international brands, this is something which our garmenting friends can only answer, because I cannot answer on that part, they will have to look at that part. Also, we need to understand one more thing is that, with the same kind of yarn, which if you see the cost of yarn which has been given to our Indian garmenting friend, and also the cost of yarn which has been given to somebody in Bangladesh or in Vietnam or in Sri Lanka, or even in countries like Turkey and Egypt is definitely expensive and still they are doing well. So you need to look at that part of the industry rather than looking at why spinning should reduce their margins or why spinning should not be doing well.

Moderator:

Thank you. We have a question from line of Awanish Chandra from SMIFS. Please go ahead.

Awanish Chandra:

Sir, Congratulations on this strong set of numbers. It was beyond most of the people's expectations. First thing first, this cotton price is rising and everybody knows that and I do understand that nobody can take a long term view on the cotton price it is a commodity, but sir at least before the start of next cotton season can you count any reason where you can see that cotton prices may go down to at least 10%, 15% any reason or this trend will be continued, I'm just talking from the short term perspective three, four months perspective.

Dinesh Nolkha:

Thank you Awanish. To understand the reason is very clear that in India cotton crop is definitely lesser than last year. So, we have crop coming in India maybe in the range of about



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6% to 10% lesser . So, that is one part. Second part is, almost 100% of the spinning whatever capacity is available and some small capacity which is being added is also running at full capacity So, the cotton production is coming down and consumption going up, plus some exports which happened at the beginning of our cotton season that has actually resulted in sort of a imbalance in our cotton balance sheet of the current quarter, so this has actually resulted in increased prices and this was further aided by the global increasing cost which was also due to the supply chain issues, cotton not coming out from Australia, where the cotton is being produced. So, that also created a sort of increase, now till these are sorted out in the international arena, this will continue to remain higher. We have been in such a place like we are very near to our supply chain to Bangladesh as well as to Vietnam. So, whenever they have any issues and there will be demand for Indian cotton.. So that is why we are where Indian cotton prices and even the delta between imported cotton and the Indian cotton is also reduced. This was supported by the import duty which we have in India. So it is not imported in a large manner. All these issues putting together leads to a situation where the cotton prices are expected to remain higher, how much because this is a completely new territory, we cannot predict how far it goes. If the shortages, which is actually being predicted some, but some people have predicted that there will be a 10% lesser crop than the prices can definitely go. As far as when it is going to go, this may stabilize at these levels or maybe a few 3%, 4% less than this, that is always possible. But substantially prices coming down will only happen once we have a clarity about the next crop which will be coming around June. We will have idea about plantation in US, plantations in India, all this will be by June of 2022. So then only we'll know about exact how and why, how much prices will come down. Here one more thing I would like to add regarding prices. Please understand that there is a inflation trend all over the world or most of the commodities prices are increasing and this cotton is also a very large commodity and there is also a increasing trend in the cotton. There are speculative interest building up, flaring up the prices of cotton as well. So this may remain like this for some point of time, until unless speculative interest also comes down. So all this, they play out during the course of the events which we hope that it plays out in 2022 then only will come in.

Awanish Chandra:

And from the yarn supply side now many company including you have enhanced CAPEX, and it looks like people are adding capacity, once their production starts, so do you think we will have any situation maybe down the line after one year or two year then again that we will face the same situation of higher supply side and that can lead to decrease in the spread?

Dinesh Nolkha:

We need to understand that capacity which is building now is only 4% to 5% of our existing capacity. We have about 52 million spindles in India, out of which around 49, 50 is running at this point of time, and in any case we cannot add due to the capacity constraints of our machinery manufacture and also because of the commitment in exports, hence, we will not be able to add more than 2.5 million capacity every year moving forward for at least next two years. So, the consumption of countries also will be coming back very strongly once



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everything opens going forward in next one or two years or six month's time. So, then the demand will pick up in India as well. Plus exports when there is a strategic shift happening from China, various countries like .Bangladesh, Vietnam, Sri Lanka will have good demand of the yarns so they will be continuously buying. If it is difficult for us to establish a spinning mill for next two years, the same is the case with any part of the world as well. So, I do not think that this cycle which is there is going to be the same way what has happened in the past, it could be a completely different thing. As far as margins are concerned, yes they can vary, demand will still be there, demand is strong. So, margins can vary, demands will remain strong that is my opinion.

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

Prerna Jhunjhunwala: Sir, I wanted to understand the industry scenario from a competition point of view, so large players we understand are expanding capacities, what is happening at the market consolidation level at such high cotton prices, because the working capital requirements for very small players would now increase meaningfully so any color on that, is it still okay with them because the margins are still high and banks are ready to really fund them or is it giving an advantage towards there as well from that perspective as well?

Dinesh Nolkha: Financially strong player does not have any problem they have access to funds and cheaper funds as well in present scenario, so that is not at all a problem. So, they can add or reduce their inventory as per need of the market. However, the smaller players definitely have a problem in hand, at this point of time they are running out with much lesser inventory and it is not easy to get funding. A smaller player to get the funding done for even a short term period for this increase in rates of cotton and others need a lot of time and they need to follow certain guidelines which the banks have put in. And also there comes in whosoever has also taken the restructuring path in the past after the COVID , ELCGS has also been taken by some of the players they are also facing this issue particularly. So definitely that gives an advantage to the large players, in a rising prices regime at least.

Prerna Jhunjhunwala: Okay. And sir second question is largely on the knit fabric, there is a decline in your production and sales on a Y-o-Y basis. So any contraction in demand is what we're facing or any reason for that?

Dinesh Nolkha: Actually last year post COVID knit fabric business was doing extremely well. It was running at 100% capacity, So, last year our capacity was running at 100% and knitted fabric capacity never runs at 100% it normally operates at about 75% to 80% depending on the fashion and other seasonal products. So, last year was aberration, and this year is a normalized year I

would say. Also there is no reduction in the demand, only the last year basics were happening and basic products were moving on very, very efficiently

Moderator: Thank you. The next question is from the line of Ritesh Badjatya from Asian Markets. Please go ahead.

Ritesh Badjatya: My question is with regard to your observation on the CAPEX side. So, compared to previous CAPEX this time how is the component in the terms of spends on the machinery and technology part and other OPEX and other CAPEX component. So, is it materially different as technology spend is higher this time in the overall CAPEX thing and if its yes, then how this technology part is going to benefit us in the coming time in the OPEX or in any other cost metric?

Dinesh Nolkha: Definitely there is a increase in the cost part, due to various components of the equipment becoming more expensive because of metals, electronic equipment, other increase in that cost. As far as technological developments is concerned, a lot of technological development has happened in the last I would say seven to eight years in between we have already installed few units, development has also happened, but this new technological developments happening like artificial intelligence, robotics coming in actually is bringing down the cost on part of first of all the employee cost and also we are seeing a lot of reduction in the energy cost happening. So, these two things are being taken care of. Even with the increasing productivity, which we are seeing in various equipment's which is installed nowadays, we are still maintaining our overall cost. So, increasing new technology will help us in maintaining our cost, the spend due to inflation whatever is being increased, that could be adjusted because of this.

Ritesh Badjatya: Compared to old facility we have advantage of about 100-150 basis points and because of this technology spend?

Dinesh Nolkha: More than that. We are saying that there is a significant improvement in that, but the operational cost of any spinning mill are much more competitive.

Ritesh Badjatya: Okay. And secondly in the recent CAPEX observation can you give us any idea that how much is the waiting period at the machinery vendors as of now?

Dinesh Nolkha: As of now it is around two years, now the deliveries of the equipment's new projects if somebody is finalizing is going to come in 2024 and some of the equipment's have even gone to 2025 calendar year.

Moderator: Thank you. The next question is from the line of Abhishek Mody from Emkay Global. Please go ahead.

Abhishek Mody: I just wanted to know in terms of your company, basically you are telling that you are getting benefits of higher margins because of higher commodity prices. So for you, just wanted to have idea in terms of input prices, why the input prices are not rising. Can you give a short brief about it?

Dinesh Nolkha: Input prices are definitely rising. We are saying that our revenues are increasing because of commodity prices. Let's say the raw material prices have increased and that we passed on to our customers, so we have maintained, it's a good thing that we have been able to maintain the raw material as a percentage to the total sale, even after increase in the raw material prices. So that has actually led for an increase in the margin for us, our cost has remained constant, in percentage terms, it has gone down. And that has actually resulted in better margins for us.

Abhishek Mody: So, If I look through, if prices of cotton goes down in the future, you will have to reduce your prices that way, assuming they go down.

Dinesh Nolkha: Yes, you're very right that when the cotton prices goes down, we also need to reduce the prices, of course in the fabric and in the garment business, the prices do not come down in similar proportion. But in the cotton spinning side, the prices come down. So normally, the earlier cycles we have seen that whenever there was an increase in prices, let's say 10% increase in the raw cotton prices, we were able to increase the yarn prices by 6% to 7%, covering the cotton cost. Whereas now it is increasing to 9% to 10% itself, so, when it goes down also let's see if we are able to reduce prices lesser than what the price reduction in the cotton as well. Definitely that will be there.

Abhishek Mody: Yes, so just a final question, yarn fabric, basically these are sort of intermediate nothing goes into the final end consumer, you are mostly into selling to industries or small companies. So end consumer does not consume your yarn or fabric correct, am I right?

Dinesh Nolkha: We are not selling to small companies. We are selling to all the bigger companies as well as core.

Abhishek Mody: Yes, but this is a intermediate product, yarn and fabric it does not go to the end consumer.

Dinesh Nolkha: Yes, it's a B2B model, it's not B2C.

Moderator: Thank you. The next question is from the line of Gaurav Jain from ICICI Mutual Fund. Please go ahead.

Gaurav Jain: First question was on the spindle capacity that we have in the earlier remarks you mentioned that there is this hybrid spindle capacity that you are setting up which will help you in both polyester based yarns also, can you help us understand how much of your existing spindle

capacities are on that hybrid model and how much additional are you adding and what benefit does it give you and do you expect the growth on the polyester fabric side, polyester yarn side, etc to be faster than cotton or something?

Dinesh Nolkha:

Yes. At this point of time, we have about 28,000 spindles which are running on polyester cotton blended spinning, in our new capacity expansion out of our total capacity. We will be adding about 42,000 spindles on the polyester cotton side. Polyester or maybe manmade and other blends. The idea behind this is that, since the government is pushing today a lot of manufacturing in PLI for polyester based in manmade fiber based, fabric production and garment production definitely that demand is going to increase. Further China is one of the largest manufacturers of these kinds of yarns as well as fabrics. A lot of shifting in this segment is also happening. We in India, have the raw material edge due to which it is not coming to India in a big manner. But with this government proactively looking into this we expect that going forward and with the raw cotton also will become constraint going in future, this has been a conscious effort on our part to increase capacity on this side and this would help in increasing our product profile as well on the woven fabric, knitted fabric as well as on the yarn side. So all segments will be benefited because of this.

Gaurav Jain:

Yes, point taken so on the existing we have 28,000 kind of spindles and we will be adding 42,000 spindles on this blended side right?

Dinesh Nolkha:

Yes.

Gaurav Jain:

Okay. Second question was on the cotton procurement policy that you are wanting to follow, how many days of or months of cotton that you're wanting to procure now or are you on a wait and watch zone. And also if you can help us understand, we understand that Indian cotton prices have become expensive than the international prices and even importing cotton into India post, paying the import duty is viable kind of. So, is it that if international prices are lesser than Indian prices, it makes us less competitive in terms of spinning business or something?

Dinesh Nolkha:

First of all, Indian cotton prices are at the all-time high that is at Rs.77,500 a candy plus that is what the base price today is and on these kinds of prices, which we have never seen, we do not want to take a lot of risk on that side. So, we are normally at this point of time reasonably covered for our orders, we are taking, we are buying as per our order requirements and some minimum reserves which we normally keep which is at very, very low level. Normally this has been our strategy for last 8, 10 years, and we are continuing to follow that so, as to avoid any speculative risk on that part first. Second, as you asked that competitiveness of Indian cotton is going down it is not so, we need to see the physical cotton which is coming in the country or anywhere else in the world. Physical cotton today is being sold by various countries like USA,

Australia, African continent, Brazil, are let's say today at still premium of about 8% to 10 % of Indian cotton, if we see the ex-gin price of cotton, they are expensive by 10%. To anywhere else in the world to the Vietnam, to our competitors to Turkey to Bangladesh anywhere else they are 10% expensive as on today. So, still we have not lost the edge. Yes, our raw cotton exporters have lost the edge because they have to then add to the various cost which has to be added like transportation, selling intermediary cost and other cost, it becomes expensive and they become noncompetitive in the international market. So yarn as such we still remain competitive on that part. If we go from here, too much high and we more or less at the same level of the International then yes our competitiveness can be eroded.

Moderator: Thank you. The next question is from line of Naresh Katariya from MoneyCurves Investment. Please go ahead.

Naresh Katariya: So just one question. I see that the production and sales of yarn is quite different for Q3. The sales are much lower in Q3, how do we read that, is that some issue with logistics, container or something else?

Dinesh Nolkha: Sales of yarn in quantities you are talking?

Naresh Katariya: Quantity in tonnes, the presentation is not in front of me, there is almost a 20% difference in the tonnage of production versus sales of yarn.

Dinesh Nolkha: 22% of our production goes into our own consumption. So that does not form part of the sales of the yarn.

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

Ayush Mittal: Sir, two quarters back when we had the conference call, I had asked you a question about the competitive intensity and you had shared that most of the competitors have been in debt and capacity has not grown in the industry for a long time. And that is why you believe the cycle will sustain this time for a longer period. But now when we are seeing most of the listed companies, most of them are now announcing CAPEX plans wherein we are trying to increase their capacity by 50% or double the same in next two, three years. So why are you saying that capacity addition is again, not much and maybe only 5% of the industry. Can you share some more thought on that?

Dinesh Nolkha: First of all, I do not see any company adding or doubling the capacity except barring from small spinners. When some spinners were having maybe 30000, 40000 spindles, yes they can add capacity, double the capacity. But none of the reasonable size players have been able to add capacity, why I say 5% capacity addition only is that we all know the figures in fact that

there is installed capacity of about 52 million spindles in India and the machinery manufacturing which is happening in India just wanted to share that most of the ring spinning machineries today are being manufactured in India only. 80% of the world ring frame production is happening in India only if you do not consider China. So, the total capacity of the various machinery manufacturers in India is about 4 to 4.2 million spindles out of which they have commitments towards exports. So, ultimately whatever is left let's say during year 21, they were not able to in fact utilize their, rather produce machineries more than 3 million spindles only because of various component shortages, various COVID effects, and others they were able to produce only 3 million and they only gave into India about 1.5 million spindles out of which, with nearly half a million spindle went in for replacement and 1 million spindle was added only on 50 million spindle capacity which is about 2% only. Similar manner in the next coming year 2022 which is calendar year I'm talking of, we are expecting that the production will slightly increase from 3 million to 3.6 or 3.8 million, but still backlog export orders are pending with them which they will need to commit complete and accordingly we are expecting that 2.5 million spindles will be added in the country of which another 500,000 to 600,000 spindles will be going in for replacement. So, the net addition is just 4% whereas there is a lot, if you see even if we are able to take 10% of the pie of China the major issue which we all need to understand that China is going down in this business the capacity which they are closing down is not coming back that is why we are seeing this large demand which is coming in this textile business of yarns as well as fabric. So, that capacity will have to be created from there. So, if it is created in our own country, that helps but still that is why you are saying machinery manufacturers are offering delivery of more than two years today. And also they have been increasing their prices of their equipment's also.

Ayush Mittal:

Okay. So sir second question is that, before this large CAPEX that we are going to do before that comes up do we have some plan also by phases for adding capacity in some phases or by debottlenecking or doing some expansion at the existing or now the capacity will increase only after this new CAPEX and do we have the land already for this?

Dinesh Nolkha:

First of all, debottlenecking process is a continuous process with us, we keep on looking at these avenues with expansions or without expansions as well. So that is how we were able to add in last year about 3500 tonnes, annual capacity for us. This year also we will be adding. We will be doing some debottlenecking at our fabric division plus also something in spinning to add slightly, but that is miniscule in terms of the total capacity which we have. Going forward major capacity will come only once this expansion plans are on, . As far as your second question of land is concerned. We already have the land available but we additionally also procured some land in last three, four months adjacent to our existing sites. That is already with us now.

Ayush Mittal: One final question if we look at the realizations of the yarn exports, there was a major increase in last two months in November, December how is the trend now in January have the realization gone up again?

Dinesh Nolkha: Realizations in January are more or less in line with what was there in December. Now in February it is going up in terms of major let's say the increase in cotton cost, always this happens that cotton price, yarn prices normally work with a lag of about one or one and a half month to the cotton. So that is playing out at the moment.

Moderator: Thank you. The next question is from the line of Nikhil Agrawal from VT Capital. Please go ahead.

Nikhil Agrawal: Most of my questions have been answered, just a couple more questions. Would we be getting the PLI benefit from the expansion that you're doing?

P Maheshwari: No, we are not going in for PLI scheme.

Nikhil Agrawal: Okay. And sir like you said that historically your capacity utilization for the knitted fabric has been 80% around. So, barring the last year when it was 100%, going forward do you see it operating at 100% or will it be a 80% around that much?

Dinesh Nolkha: Like knitted fabric capacity actually, that is a fabric division which is a small part of the total business. Spinning side we are utilizing our capacity to the range of 99% to 100% level so that is fully utilized there is no issue on that part, knitted fabric is a fashion product, where we have to produce as per the fashion trends which are happening and the season which is happening. So, accordingly capacity is being utilized. So, traditionally, it has been in the range of 75% to 80%. And it may remain at this 80% to 85% level going forward as well.

Nikhil Agrawal: So, sir any reason why this remain at 75% to 80%, but you are still going in for the expansion. So, like any reason behind that?

Dinesh Nolkha: Actually in this we have a lot of equipment's, a lot of machineries are there we have to buy. This was regarding our knitted fabric capacity. Knitted fabric, this is a general business phenomenon, where as per the trends of the business we need to utilize the equipment. this is a pre-sold product. So, we can normally say that is the utilization level which will happen. So, this is very normal and we have to buy a complete bouquet of machines, it is not a single machine or a single utilization point, in that process we normally do it and it is also seasonal, that is a normal part of the business in this industry.

Nikhil Agrawal: So, even after your expansion you expect the capacity utilization to be in the range of 75% to 80%, or will that be any different math ?

- Dinesh Nolkha:** We are talking about the whole mill, whole company or you're talking about only knitting business?
- Nikhil Agrawal:** The knitted fabric.
- Dinesh Nolkha:** Knitted fabric, I would just like to highlight that, out of this total project of 950 crores we will be spending only Rs.12 crore rupees on knitted fabric adding this capacity of about 25%. So, it will be completely miniscule in terms of the total revenues of the company.
- Nikhil Agrawal:** Okay. And sir just one last question, on your cotton procurement strategy do you like procure cotton all throughout the year, or it's just between October to March?
- Dinesh Nolkha:** We normally do procure around the year. This has been our strategy for last 8-10 years so we follow the same.
- Moderator:** Thank you. The next question is from line of Shanti Patel from Shanti Patel Investment Advisors. Please go ahead.
- Shanti Patel:** Good afternoon sir. My question is, there is no major installation of capacity coming up because of the constraints as far as the manufacturers of machinery are concerned, will you be able to name those manufacturers in India who are supplying to all the spinning units this machinery?
- Dinesh Nolkha:** Sure, we can definitely name them. There is no issue this are all very well known, the biggest one is the Lakshmi Machine Works, second one is the Rieter India this is a subsidiary of the Swiss Company Rieter in India. Then we have Toyota Manufacturing which is a subsidiary of the Toyota Cars and others from Japan. Then the fourth one is the Zinser Manufacturing which is a subsidiary of the german company Saurer.
- Shanti Patel:** But as far as the domination is concerned Lakshmi Machine dominates the market if I'm not wrong.
- Dinesh Nolkha:** Nearly 50% capacities with Lakshmi Machine work for the whole country.
- Shanti Patel:** Correct. So, looking to this scenario, the demand and supply mismatch will continue for next four, five years?
- Dinesh Nolkha:** As it looks now, first of all we need to understand how much share we will be able to take from China, in spinning side, we are all geared up, we are all doing everything to take that share, but we also have to see how much downstream industry will be able to take the share of that. Also, all our peers, other countries like Vietnam, Bangladesh, and other countries are able

to take share who are our customers actually. So, this depends how much China concedes in. Overall, if you see the consumption of the fiber all over the globe, it is not increasing substantially it is increasing only by 2% whereas, capacity additions all around the world will happen to about 3.5% to 4%. So, somebody has to concede. Today China is conceding that's why we are seeing this good situation. So, how much share India is able to take, how much other countries will be able to take will decide the tenure, but it looks good at this point of time as far as demand is concerned for next two to three years going forward.

Moderator: Thank you. Next question is from the line of Kirthi Jain, Individual Investor. Please go ahead.

Kriti Jain: Sir, this CAPEX you have announced it will get commissioned in one shot or it will get commissioned in the phase wise manner?

Dinesh Nolkha: This will commission in the phase wise manner, starting from early calendar year 23. It will be spread over three quarters maybe something in March 23 and June and then last one by September.

Kriti Jain: Okay. Sir, given the business now requires enhanced capital employed and now there is an inflation in the machinery and building also, don't you think sir this is a reasonable profit which should sustain going forward?

Dinesh Nolkha: Yes, if you see the overall cost being increased, and other things happening along with the cost, which is happening margins will remain elevated if we have to do investments going forward. So, we also expect that, but today if you say that this margin level of 25% remains there or not, is something which cannot be answered.

Kriti Jain: Sir, any guidance would you like to give sir?

Dinesh Nolkha: As such we have always been saying, it is not that we are saying in this particular quarter. But we have always been saying that spinning business normally has a margin in the range of about 16% to 20% levels. This is the level of margins, which is average margins, in good times it goes slightly up to 25% and in bad times it it may go to 12%. So, this is the whole band of the things, plus added with our value added product we have fabrics and other things, the average margins should be in the range of 18% to 20%. That is what we have been always saying. So this is what we feel is a sustainable margin for a longer period of time.

Moderator: Thank you. The next question is from the line of Sonal Gupta from L&T Mutual Funds. Please go ahead.

Sonal Gupta: My apologies, I joined this call a little late sir, could you. So, sir just wanted to check what is the inventory, just trying to understand like, what sort of inventory, older inventory you would

have or is your inventory to the current consumption all at market price just trying to get a sense on that.

Dinesh Nolkha: For the last quarter you're asking or you're asking for?

Sonal Gupta: Q3.

Dinesh Nolkha: Q3, at the end of the season normally we have inventories maybe it could be last whatever we consumed was about 30%, 33% older and maybe one third and two third can say around that. And also, always you have the orders, older orders also at the lower prices. When the prices increase and when the prices decrease at the higher prices as well. It is vice versa, that you also have the inventory also you have that orders overpriced.

Sonal Gupta: Got it sir. Sir, going forward from Q4, then will that normalize just trying to understand with the inventory in order prices?

Dinesh Nolkha: Basically you want to know that what inventory gains we had, I have been telling before so many years that it has been our strategy to maintain a reasonable inventory level, especially at the raw material stages, whether the price goes up, whether the prices goes down, that has been our strategy and we tried to eliminate the speculative risk involved in this. So that is where we still stand. And we do not see that there was some extraordinary inventory gains accrued to us during last quarter.

Sonal Gupta: Got it sir. So, would you be hedging because for procurement like you said, you were able to procure throughout the year?

Dinesh Nolkha: So, we are not hedging we have a natural hedge of our sales. We do forward sales so we also have that hedging available with us.

Moderator: Thank you. In interest of time, this was the last question for today. I now hand over to management for closing comments.

Dinesh Nolkha: Thank you everyone for joining the call. And we thank PhillipCapital for hosting this call. I hope we have been able to answer all the questions satisfactorily. I know some questions would have not been taken. So, if you need any other further clarification, or would like to know more about the company, please feel free to contact our finance team or our Investor Relations Advisor for your queries. Thank you once again for taking the time out and joining us on the call.

Moderator: Thank you. On behalf of PhillipCapital (India) Private Limited that concludes this conference. Thank you for joining us. And you may now disconnect your lines.