NITIN SPINNERS LTD.

NITIN

REF: NSL/SG/2024-25/
Date : 12.11.2024

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 08.11.2024

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, 08, 2024 on Operational and Financial Performance of the Company for the Quarter and Half Year ended 30th September, 2024. 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: 2024.11.12 17:30:59 +05'30'
(Sudhir Garg)
Company Secretary & VP (Legal)
M.No. ACS 9684

"Nitin Spinners Limited

Q2 FY '25 Earnings Conference Call"

November 08, 2024

"E&OE - This transcript is edited for factual errors and readability. In case of discrepancy, the audio recordings uploaded on the stock exchange on 8/11/2024 will prevail."

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

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

Moderator: Ladies and gentlemen, good day and welcome to Nitin Spinners Limited Q2 FY '25 Earnings Conference Call hosted by SMIFS Limited. As a reminder, all participants' lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star, then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Awanish Chandra from SMIFS Limited. Thank you and over to you, sir.

Awanish Chandra: On behalf of SMIFS Limited, I welcome you all to Q2 FY '25 Earnings 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 questions and answers Now, I will hand over the call to Mr. P. Maheshwari, CFO of the company. Over to you, Maheshwari sir.

P. Maheshwari: Thank you, Awanishji. A warm welcome and best wishes for Diwali to all the participants to this Q2 and half yearly earnings call of Nitin Spinners. I hope all of you had a chance to look at our investor presentation that is uploaded on the company's website as well as stock exchanges. Before our CMD, Shri Dineshji elaborate on present industry and business scenario, I am giving brief financial highlights for the quarter and half year ended 30th September 2024.

The company has recorded highest ever quarterly revenue of INR822.52 crores during the quarter, showing an increase of 11.5% on Y-o-Y basis and 2.4% increase on quarter-on-quarter basis. Cumulative revenue for the half year is INR1,625.49 crores against INR1,354.51 crores in the first half of previous year, reflecting an increase of 20%.

EBITDA for the quarter stood at INR115.15 crores as compared to INR81.98 crores in Q2 FY '24 and INR118.80 crores in Q1 FY '25. Half-yearly EBITDA for the period is INR233.95 crores against INR158.08 crores in H1 '24, an increase of 48%.

EBITDA margin for the quarter is 14.0% as against Q2 FY '24 margins of 11.12% and Q1 FY '25 of 14.8%.

PAT for the quarter is INR42.16 crores against INR31.70 crores in Q2 FY '24 and INR42.12 crores in Q1 FY '25. Half-yearly profit after-tax is INR84.28 crores against INR60.60 crores in H1 '24, that is an increase of 39%.

EPS for the quarter is INR7.50 and half yearly EPS is INR14.99 per share against INR10.78 per share in H1 '24.

As of September '24, the company's debt profile stood at INR1,180 crores with debt equity ratio of 0.97 as on 30 September against 1.17 on 31 March 2024.

That is all from my side.

I now request Shri. Dineshji to apprise about industry and present business scenario.

Dinesh Nolkha: Good evening everybody, and thank you for joining the call. I extend my heartfelt season greeting to all of you on this festive occasion of Diwali and other holidays.

As the industry shows sign of stability despite continuing geopolitical challenges in various parts of the globe. So if you see overall, we see that domestic demand has remained relatively stable, although, subdued. However, global demand was quite less. The value-added segment driven by increasing consumer demand for sustainable and specialized textiles continued to show strong growth potential.

This shift towards high-quality niche products provided a promising opportunity for companies well-positioned to capitalize on these trends.

International cotton prices, on the other hand, dropped further, creating still a mismatch in domestic and international cotton prices, impacting the margins in the quarter gone by. Looking ahead, we expect gap between domestic and international prices to narrow down with the arrival of new Indian cottons.

Now coming to the company's performance, the company has shown another quarter of stable performance during the quarter on account of improved utilization of our assets and cost efficiencies. Realizations impacted marginally despite volatile international cotton prices due to companies' focus on value-added products. Despite subdued global demand, the company achieved highest-ever quarterly exports of INR522 crores and highest-ever quarterly revenue of INR822 crores.

In the coming quarters, we hope to improve our position by focusing on optimization of product mix and cost efficiencies. Going forward, our strategic focus will be to drive long-term sustainable growth by increasing the share of value-added products as well as investments in renewable energy and the value stream as well. We are evaluating various scenarios towards the same and will share as and when we come up with a firm plan.

That is what, at the moment, from my side. Let us open the floor for questions and answers and then we can discuss accordingly.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Manish Ostwal from Nirmal Bang Securities Private Limited. Please go ahead.

Manish Ostwal: Yes, sir. Thank you for the opportunity and a decent set of numbers despite the domestic weakness of consumer demand. So, my question on basically on first on the domestic demand is how do you see the demand panning out after the quarter two numbers, especially the festive season? And secondly, what's your comment on the export demand recovery? We are seeing good traction in natural numbers. How do you see the second half panning out for us?

Dinesh Nolkha: First of all, domestic demand has been slightly improving only if we see last one or two months when it was moving towards the festive season. And we expect that normally in second half always we have better domestic demands due to the seasonal requirements of winter as well as the marriage season which happens. So, in the textiles, normally the second half is better than the first half as far as domestic market is concerned. So, we expect and we have -- as we are discussing with our customers, we are seeing that there has been a decent retail sales also happen. So there should be a reasonable demand better than what we had seen in the last six months for domestic market.

As far as global market is concerned, the demand has been quite subdued because of various geopolitical tensions happening all around us. But we have been able to maintain our momentum by exploring certain new markets as well as penetrating more with our existing customers. We hope to continue the same momentum going forward as well.

Manish Ostwal: Okay. And sir, this political regime change in Bangladesh, how has been the impact on the business in the short term? And do you see the medium to long term material demand coming to India and we as a fabric supply chain can participate in that thing. So how do you see the medium-term opportunities of this geopolitical thing from Bangladesh basically?

Dinesh Nolkha: There was a very small timeframe when there was a disruption. Maybe the transition from the last government to the new government was pretty smooth I must say and it happened within a period of five-seven days. So it did not affect us for the yarn business at least.

So it was quite smooth transition which has happened. But there has been issue -- small issues cropping up during last three-four months we have seen. So that's why we feel that now the customers are looking towards the newer markets as well, newer suppliers as well.

So in that scenario, definitely most of the brands are also looking at India. We have seen that our customers in India who are into the export businesses have seen a good demand of garments. But our garment capacity has a limitation to export or maybe they are catering more towards domestic market than towards the export market.

So there is a limited scope of improvement on that side. Yes, definitely as a fabric supplier we will have an advantage in the domestic market to sell more to our existing customers and exporters as well.

Manish Ostwal: And lastly, sir, we were anticipating the next phase of growth plan to announcement in the after quarter two earnings. So, what is your strategic plan that we want to further see the demand to stay for firmness when we announced that thing or what is your position on that front?

Dinesh Nolkha: Basically, definitely, we will be going in for the expansion of our capacities. We are just slightly cautious on what are the products where we want to invest in. The capital allocation needs to be done very judiciously in such trying times when we are seeing the disruptions coming every year and on. So we need to get into the products where we see long-term strategically something which we can continue to grow and have better margins.

So we are in that process at this point of time. We are deeply studying various avenues which are available to us. And we are firming up our plans as well regarding the capacities also, regarding the products which we want to get in. So, we could not complete the whole exercise as such. So that's why it is taking slightly more time. But we will let you all know about it very shortly.

Manish Ostwal: Surely, sir. We will be waiting for that. And last question on the overall our cotton price outlook for the short to medium-term international?

Dinesh Nolkha: First of all, cotton prices in India, the season started with the announcement that last year the crop was much more than what was announced at the beginning of the season. So cotton prices accordingly in India came down near to very much near to the MSP levels itself. So at the moment cotton prices are ruling near to the MSP levels, not too far off from there. And we do not expect it to go down any further, maybe 3%, 4% where the MSP will hit us at about INR52,000 to INR53,000 a candy. So that is the lowest level we are expecting. And we expect that on the upside also we do not see too much traction because a lot of cotton internationally is available.

And still from the international prices we have a disparity. We actually Indian cotton is trading at around 14%, 15% premium over the New York futures, where it used to be around 5% earlier. So this disparity is still there and we think because of the availability of the cotton in the world, Brazil is producing one of its largest crop, even U.S. is coming out with a very decent crop. So looking into that and lower demand in the international market, we feel that the prices should remain in this region only of -- which is prevailing at the moment in the international market of about $0.70 cents per pound.

Manish Ostwal: Thank you for answering all my questions and all the best for the second half. Thank you.

Moderator: Thank you. The next question is from the line of Vikram Vilas Suryavanshi from Phillip Capital India Private Limited. Please go ahead.

Vikram Suryavanshi: Yes, good evening, sir. So how is the industry capacity utilization for spindle, and how much spindle addition we are expecting going forward?

Dinesh Nolkha: Sir, at this point of time, we have in all about 54 million spindles working in India -- installed in India. I think out of that around 10% has been redundant and not operating only. So we are left with about 48 - 48.5 million. And then another, the spinning capacities are being utilized to the range of about 85% to 90%. This has been constant for the last 2-3 months that we are seeing utilization. So overall if you see from the installed capacity, the utilization is in the range of about 75% to 80% whereas operating wise you can see around 85% to 90%.

Vikram Suryavanshi: Got it. And in terms of our fabric capacity, now we are coming close to full utilization, not exactly, but at least we are approaching that. So are we seeing any opportunities for capacity addition at fabric?

Dinesh Nolkha: Definitely. Definitely, we are also looking at that particular avenue as well. So we are working out various products which needs to be -- which we need to cater. It is not only the fabric capacity, we need to also look at the kind of products which we need to do, the improvements in the product profile and other things also we are looking at. So definitely, that is -- that is definitely going to be a part of our growth strategy as well.

Vikram Suryavanshi: And out of total fabric, how much broadly would we be exporting?

Dinesh Nolkha: We are exporting in the region of about 18%, 17%-18% we are exporting directly. Rest is being given to the exporters in the country itself who in turn export the garment.

Vikram Suryavanshi: Okay, okay. So I think that is the area where probably we can see good opportunities going forward as a fabric compared to yarn?

Dinesh Nolkha: Looks like that.

Vikram Suryavanshi: Yes. And knitting somehow still there is improvement from low base, but is there any structural issue from knitting fabric side where we are not seeing good amount of traction or utilization of the capacities?

Dinesh Nolkha: In the case of knitting -- what we have observed is off late the value addition has been going down substantially and we have a minimum benchmark of value addition which we have kept. So because of that, we are not able to increase our utilization level. If you want to sell and utilize, we can easily reach about 75% to 80% of our capacity. But there is a minimum threshold benchmark of contribution which we have kept for this particular business. And as such, anyhow we also have to compare how our yarn is -- whether if we are able to sell our yarns in a better manner than the , knitted fabric. That proportion also we need to look at.

So considering that we have lesser utilization of knitted fabric. If you see overall from the knitted fabric business point of view, there has been a good demand of the knitted fabric. If you see about 6 months back the demand of knitted fabric was quite low. If you see now the numbers of our customers as well and you see the various demand coming in, knitted fabrics is improving substantially. So from that point of view utilization is possible but margins have still not come there. So that is one of the reasons why we are trying to keep it in a controlled manner.

Vikram Suryavanshi: Got it. And last question from my side about out of total cotton we use on a year, broadly how much is imported percentage wise broadly?

Dinesh Nolkha: It depends on year-to-year. We keep on importing various kinds of cotton as per the requirement of our customers. So last year, the year which we are running into at this point of time, it has substantially increased because of the cost economics part. So in last 6 months our utilization of imported cottons exceeded more than 25%. So this may still continue going forward looking to the prices which is there.

Vikram Suryavanshi: Okay. But for our export, we must be importing again advanced license which could be helpful looking at the lower international prices?

Dinesh Nolkha: Yes, definitely, we are doing that as well.

Vikram Suryavanshi: Okay. So largely export is coming from that or is even -- so we can still make money from domestic cotton and exporting it?

Dinesh Nolkha: No we are not -- 100% export is not going from that. It is about -- our exports of yarn is about nearly 55% of our capacity whereas as I told just now imports is about 25% only. So we are also selling from the domestic cotton as well.

Vikram Suryavanshi: Got it. But does it make sense when you are getting 10%, 15% lower price for international cotton? Or you think transport cost is something which is making difference?

Dinesh Nolkha: The landed cost, this is what we had talked about in my earlier comment was the ex-gin prices, ex-gin U.S., ex-gin India. There, we have a disparity. But when we compare the landed cost, Indian cotton in the last quarter, it was expensive by about 5% to 7% in comparison to the imported cottons, but there is a time lag by which the cotton can come in and we can utilize it. So that is one of the hindrance.

Here, at this point of time, more or less Indian cottons on a net clean cotton cost basis is more or less at parity with the international cottons. So more or less, they have come at parity. So then we have to again weigh how much -- what is the future and how we have to go ahead on that part. So we are increasing or utilizing according to the requirement of the customers as well as our logistics as well.

Vikram Suryavanshi: Understood sir. Thank you very much.

Moderator: Thank you. The next question is from the line of Tamil, from Tamil Investments Limited. Please go ahead. Mr. Tamil, your line has been unmuted. Please go ahead with your question. Mr. Tamil, your line has been unmuted. Please go ahead with your question. As there are no response from the current participants, we will move on to the next participant. The next question is from the line of Sukhbir Singh from Grow Value Capital. Please go ahead.

Sukhbir Singh: Good evening and thank you for the opportunity, sir. My first question is like what is the inventory level held by the retailers? Have they held it due to demand impacted in the domestic market? Or what is the current inventory levels they have currently?

Dinesh Nolkha: I will not -- since we are not directly dealing with the retailers, I will not be able to exactly highlight the level of inventories which they have. But as we discuss with the industry sources, we are understanding that they are coming down substantially in the last -- post the festive season. There has been a good sale. So the inventory levels have reduced substantially. How much it is, what is the quantity, I will not be able to quantify exactly.

Sukhbir Singh: . Okay. Okay. So, my second question is like any plan for technical textiles for garment segment or like any new segment in the near future?

Dinesh Nolkha: At the moment, not in the technical textiles. We -- of course, some of the technical nature of the fabrics, which can be produced in our existing spinning system and the weaving systems. We are definitely looking at those areas. Definitely, that is under our consideration, but not specifically any new -- specifically new systems on which we can do technical textiles. Of course, garmenting is something which we keep on looking.

And with the avenues which is developing at this moment and the development which has happened in Bangladesh and also in other countries. So we are definitely looking at that avenue. And the kind of demand which is getting generated is also -- we are looking at those areas as well.

Sukhbir Singh: Okay, sir. Sir, my next question is like considering like Bangladesh issues currently. So like what are the new strategies for export market? Like can you please explain in brief like which countries are aimed to capture it -- you are aiming to capture its market share?

Dinesh Nolkha: Actually, we are present all around the globe already. We need to only shift our preferences. And those preferences are dependent on many factors, such as the logistics cost, which is involved, our competitors' cost in comparison. So we need to factor in all those things. If we consider them today, Bangladesh is still the best bet.

Bangladesh and maybe Sri Lanka are the 2 countries which are still the best bet because they are very near to us. Logistic cost is also very less. And looking into the nature of the retailers, international retailers who wants very, very fast turnaround, it suits them as well as to us. So we have to -- at this point of time, we have to focus on such markets where we can deliver faster at lesser cost. That is the strategy. So you have to be in those markets at the moment.

Yes, as and as we feel that if the geopolitical tensions die down, our existing markets in other continents as well will come back to us. And we keep on knocking the doors so that we can build upon our existing relationship, which is already there. And I do not see too much downturn in the Bangladesh. Yes, the growth may not be there in Bangladesh going forward so much. But I do not see that they're going out of business or their business going away very in short term.

Sukhbir Singh: Okay, sir. Okay. Thank you so much, sir. I'll rejoin the queue. Thank you so much.

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

Roshan: Yes, thanks for the opportunity. So, just wanted to understand how are the freight costs panning out now?

Dinesh Nolkha: Freight cost, if we compare with the -- I mean if we divide this freight cost today in 4 parts, like first quarter, second and third and then now, so the peak freight cost was in the second quarter. Q2 was the -- of this calendar year, I must say, from April to June was the peak freight cost. Then slightly from the July onwards, the freight costs have come down.

But now at this point of time, they are still higher than our first quarter. So all in all, the freight cost is coming down, the pain which was there in June -- around June, July was -- subsided substantially, and we expect that the normal kind of freights will be there in another month or so.

Roshan: Okay. That was helpful. And given that this scenario continues regarding the freight, so what would be the ideal EBITDA margins that we should be looking at going forward, the broader range?

Dinesh Nolkha: Of course, the freight does not decide our EBITDA margins because freight is only a small component of it. We have various other factors also involved like the raw materials. We would wish to have better EBITDA margins than what we are running at. If you see our last 3 quarters, we are running at near to the similar kind of EBITDA about -- in the range of about 14% to 15% is the EBITDA range, which we have been there.

So definitely, we are looking forward to improve this going forward. Normally, second half is better. So we expect it to improve going forward as well. But a lot of it depends on the cotton prices and the demand which is coming there. On the demand side, we are not seeing that much traction in the international market as we would expect it to. So that is one of the major reasons for lower margins at the moment.

Roshan: Okay. Thank you, thank you so much. That is all from me.

Moderator: Thank you. The next question is from the line of Raman from Sequent Investments. Please go ahead.

Raman: Sir, I have just two questions. I just want to know what's the gross margin from yarn as well as fabric business? And what is the current spread between yarn and cotton?

Dinesh Nolkha: What was your first question? Can you please repeat it? What was…

Raman: Gross margin from both yarn and fabric business?

Dinesh Nolkha: Normally, means, gross margin if you see, overall gross margin, I think, is in the range of about 38% on a totality basis. If you see, Maheshwariji, am I right? Can you check the numbers exactly?

P. Maheshwari: For this quarter, it is 36%.

Dinesh Nolkha: 36%. So, that is the gross margin on a blended basis for us. Definitely, since the yarn is made out of our – in our itself process. So, the fabric gross margins are definitely much better than this. So, on an average basis, they should be in the range of about 50% levels. And the rest will be – and on the yarn basis, it should be around 34%, 33% to 34%. Now coming to your second question of – can you repeat the question – second question, please?

Raman: Sir, what's the cotton yarn spread, yarn cotton spread?

Dinesh Nolkha: Yes, cotton to yarn spread is, as of today, is in the range of about, basic cotton to yarn is in the range of about INR90 a kg.

Raman: INR90 per kg?

Dinesh Nolkha: Yes.

Raman: Sir, any – sir, will there be any reduction in the gross debt going forward?

Dinesh Nolkha: Yes, definitely, it is reducing only. As you can see, our…

Raman: With respect to '25?

Dinesh Nolkha: Pardon? With respect to?

Raman: The final year '25.

Dinesh Nolkha: Yes, it is further going to go down. We have repayments of nearly INR90 crores to INR100 crores going in, in next six months. So, that should be there. So another 100 crores should be paid down. We are – at this point of time, our gross debt, as you must have seen our balance sheet is about INR1,180 crores, inclusive of our working capital as long-term debt. And this should come down by another INR50 crores or so, considering that working capital may increase slightly. And the repayments will be of INR90 crores will be done in the next two quarters.

Raman: Sir, and one last question. So, can you give any volume guidance or revenue guidance with respect to FY 2025?

Dinesh Nolkha: Basically, volume guidance is like, we are now running at near to the top capacity in our spinning. So, you can accordingly extrapolate. We have – we are near to the top level. So, in the fabric business also, we are just reaching the near – we are very near to our top capacity. So it should be – it is also running on that side. And– knitted fabric business, we expect to improve. But that does not materially impact our overall revenues. And on the revenue side, I think we should be able to maintain this run rate of more than INR800 crores going forward as well. So…

Raman: INR800 crores, right?

Dinesh Nolkha: Yes, Yes.

Raman: But in the remaining, two quarters?

Dinesh Nolkha: Yes, remaining two quarters.

Raman: Okay. Thank you, sir.

Moderator: Thank you. The next question is from the line of Aditya from Sowilo Investment Managers. Please go ahead.

Aditya: Yes, thank you for the opportunity. I have two questions. One is, can you give me the knitting or export investment? I want to know how much is revenues, especially from North America?

Dinesh Nolkha: From revenues from the?

Aditya: North America.

Dinesh Nolkha: North America, I think of our export sales, we are doing about 7% to 8% in that market.

Aditya: 7% to 8%, okay. And my next question is, like, you know, we all know that Trump has won the election. So, and he has proposed, like, you know, across the board tariffs, at least in his campaign speeches of about 10% to 20% on everything else coming from any country apart from China. China is much higher. So, in case, say, some kind of tariffs do come in place, like, two questions. So, one is like, what kind of tariffs do you expect may come in place? Second thing is, what kind of steps, I mean, are possible for us to take as a company so that, you know, we can mitigate any effects of any proposed tariffs?

Dinesh Nolkha: Like, first of all, already from India, we have higher tariffs in comparison to other competitors. So, likes of Pakistan, likes of Bangladesh, which is there, and also not, and more or less equal to what China is having. China is having the majority of share of the textile exports. Nearly, if you see the total textile exports happening in that market, we are – India is having only, if you total up everything, including yarns, fabrics, made-ups, home textiles, everything, our exports are nearly 15%, 12% to 15% of what they are importing.

And China constitutes more than 50%. Any steep tariff on China will definitely help us grow our business. It is for the American people to pay these higher taxes. They will be paying, if everything is expensive, one is expensive by 50%, another one is expensive by 10%, definitely we will have better competitive advantage. So, as far as the tariff goes, if that is implemented, I think India will definitely have an edge. I don't see as such, already since our tariffs are higher than what it should be in that market. We have been – GST benefits have already been withdrawn in the last Trump Presidency. So, I do not expect any major tariffs coming us, at least on the textile side.

Moderator: Aditya, I hope this answers your question? Thank you. The next question is from the line of Vikram Vilas Suryavanshi from Phillip Capital (India), Private Limited. Please go ahead.

Vikram Suryavanshi: Yes, I think most of the questions answered, but just looking at the scenario, where we are seeing correction in polyester prices, linked with the crude. So, does it impact pricing for cotton yarn also or you think it's not much material impact?

Dinesh Nolkha: Definitely. First of all, we need to look at the polyester with the cotton. So, whenever the polyester, just crude has come down and it is putting pressures on the Polyester Fiber. And Polyester Fiber being an alternate fiber to cotton, definitely impacts the pricing of the raw cotton also. And that is why we are seeing a lot of pressure due to which the prices has come down substantially in the raw cotton also. Raw cotton prices have been moving in this lower range of about $0.70 cents per pound internationally, as well as in India in a lower band of about near to MSP because of this pressure created by the polyester.

So, definitely that has an impact on the raw material side. As far as yarn goes, in the lower end products or where there is a fungibility available to change the products from cotton to the blends, yes, definitely that is happening because of lower polyester prices. But vis-à-vis that, we are also seeing the cotton prices also coming down. So, at the moment, we do not see the impact – too much impact on the cotton consumption side. Yes, it has impacted us in the early half of this particular year itself. From January to June, this was one of the scenario.

Vikram Suryavanshi: Understood. And in terms of cotton purchase, given the volatility and uncertainty, what would be our strategy in terms of cotton purchase? Will we like to hold if it is close to MSP in larger quantity or like on a regular basis?

Dinesh Nolkha: We have been, it is our stated policy that we follow a normal, as per our market, as per our exports, or as per our order book. Excuse me, as per our order book, we are holding the cotton. So, accordingly, we are not going for any major stocking kind of thing. If we get the orders at this price level, definitely we will stock it up accordingly.

Vikram Suryavanshi: Understood. And last one, what would be share of our blend yarn out of overall yarn field?

Dinesh Nolkha: Blended has now reached nearly, out of our total production at this point of time, blended yarn has reached about 17%, 18% of our total capacity.

Vikram Suryavanshi: And is that broadly peak for us or we have further room to, depending on the market situation, to expand?

Dinesh Nolkha: We can increase this capacity depending on the market. Some of our mills are capable to change from cotton towards polyester cotton. So, at the moment, the dedicated capacity which has been done for blends is only running at the moment on that.

Vikram Suryavanshi: Okay. So, but when you say blend, it is like a PC or PV or is it like a polyester viscose also?

Dinesh Nolkha: Yes, it is polyester viscose, as well as polyester cotton, as well as viscose as well. So we can do various kinds of – 100% man-made also, we can do also on the blends also and blending of various man-made also.

Vikram Suryavanshi: Understood. Thank you and all the best, sir.

Dinesh Nolkha: Thank you.

Moderator: Thank you. The next follow-up question is from the line of Aditya from Sowilo Investment Managers. Please go ahead.

Aditya: Yes, thank you. I am sorry, my phone got on mute the last time. So, Yes, so my question follow-up was that when you say that, we gave this metric guidance, 50% is from China and if they have like 50% tariffs then we will be more competitive. So, I just wanted to understand, will we be more competitive just based on the price potential or is there any other steps we can also do to be competitive?

Dinesh Nolkha: At this point of time, if you see our industry, we have various disadvantages like we have higher raw material prices vis-à-vis international parity. It is just because of our cost efficiencies in the various, especially in the spinning side, we are able to compete internationally and still have a major market.

Moderator: Ladies and gentlemen, we have lost the management line connection. Please stay connected while we reconnect them. Thank you. Ladies and gentlemen, thank you for patiently holding. We have the management line back on the call.

Dinesh Nolkha: Yes. So, I think we were discussing about the competitiveness of our industry. So, definitely Indian industry is competitive. We have certain disadvantages in terms of our export, basically our import parities. Our imports are expensive. Our raw materials are expensive when compared to our competitors like polyester, viscose as well as cotton, Today is expensive than the international market. We are quite expensive. So, we feel particularly that definitely going forward, our competitiveness will be improved if we have a better tariff regime going with us.

Aditya: Okay. And last question, I am sorry, you may have answered this already in the call. What is the reason for margin compression quarter-on quarter?

Dinesh Nolkha: Basically our raw material prices, we had a disparity in the raw material prices, particularly if you see in the last three months, the disparity went up to a level of about Indian cotton prices were expensive than the international market by nearly 18%, 20% also during the quarter. And yarn prices came down, but Indian cotton prices remained at the same level. And internationally, since we have a major share of exports, so that reduced our margin – the gross margin.

Aditya: So, is there some means to hedge for that volatility?

Dinesh Nolkha: We are importing cotton. That helps us in reducing that volatility. As I shared in my last – one of the questions, that we are increasing our share in imports of cotton. So, that helps us in hedging that particular part.

Aditya: Okay. Thank you. Thank you.

Moderator: Thank you. The next question is from the line of Nishit Jain from S&G Investments. Please go ahead.

Nishit Jain: Yes. Hi. Thanks for the opportunity. So, as you mentioned, the current cotton to yarn spread for this quarter was INR91. So, can we expect this going forward in H2 to be better?

Dinesh Nolkha: I told that this is the delta today, not the last quarter. Last quarter was also about INR.87 INR88, if you see. The raw material prices were, I think, averaging at INR165 or INR166. And the yarn prices were in the range of about INR260.

Nishit Jain: Okay. Okay. Thank you.

Moderator: Thank you. The next question is from the line of Uday Mehra from UK Capital. Please go ahead.

Uday Mehra: Sir, why the value addition is going down in knitted fabric, as you mentioned in the previous questions? Can we have more clarity on that?

Dinesh Nolkha: Value addition is lesser in the knitted fabric because the process is smaller in comparison to the weaving fabric. I was just comparing the weaving fabric and the knitted fabric side of the business. So, the value addition in the knitted fabric is lesser because of the lesser processes involved. So, that is why the value addition is comparatively lesser. So, it has more impact of raw material prices and raw material costs. Immediate impact is much more. When you have lesser delta, the impact is more. So, we need to be very cautious of minimum value addition which we want on that side.

Uday Mehra: Okay. And sir, in India, it seems that the cropping season is okay. And the prices are around MSP. Any chance of getting the cotton below the MSP? And given the parity, do we have any plans of importing cotton?

Dinesh Nolkha: We are importing cotton. Definitely, we are importing cotton. And it is coming in big way in whole of country and all the reasonable size players are importing the cottons already. So, that is definitely happening. As far as cotton prices going below MSP, I do not think so. It may happen for few days, maybe few weeks as such. But normally, the cotton corporation of India -- the agency appointed by the government of India, generally steps in whenever the cotton prices, whenever the basic raw cotton prices falls below the MSP levels.

So, we do not see prices remaining below MSP for a very long time. Again, yes, if they decide to sell as per international parity, then the cotton prices may be available at lesser prices as well. But that is for them to and the government to decide on that particular part. Till date, that has not happened as of yet.

Uday Mehra: Okay. So, what would be the percentage of the cotton imported in the overall inventory levels?

Dinesh Nolkha: I have stated in my last question. It is in the range of about 25% for us in the last six months.

Uday Mehra: Okay. Okay. So, till the parity issue will not be solved, this will be remaining in the same level, right?

Dinesh Nolkha: Yes, it may increase as well. So, going forward, it depends. Since we are exporting and we are allowed to import under advanced license, we can increase this as well.

Uday Mehra: Okay. Okay, Thank you, sir. Thank you.

Moderator: Thank you. The next follow-up question is from Sukhbir Singh from GrowValue Capital. Please go ahead.

Sukhbir Singh: Thank you, sir, for the opportunity. Sir, my question is related to the power cost savings. So, what are the measures we have taken to save the power cost and what will be the benefit we will be getting in this financial year and also in FY'26?

Dinesh Nolkha: Measures we are taking like, first of all, we are -- at the moment renewable power, especially the solar power is quite cheaper. So, we have already increased our capacity on the solar power side. Now, we have about 18.8 megawatt of solar power already up and running and we are further adding the capacities on that particular side. This is just about 8% to 9% of our total power requirements. This may further – this may increase going forward as well. So, we have the cost of power there is quite cheap, in comparison to our grid cost, it is nearly half. Our grid costs are more than INR7 a unit and that costs about INR3.50 a unit. So, as and as that capacity comes up, that will help us in reducing our power cost.

And further, we are also discussing with various players to get the solar capacity in the solar parks that will -- and the supply for captive purposes. That will also help us in reducing our power cost. Further, on the side of the consumption, we have keep – we do keep on having a lot of exercises where we try to improve upon our cost efficiencies and reduce the usage of power in the various processes involved.

So, on one side on the generation and on the consumption side, both sides we are working very aggressively since that is our biggest cost after the raw materials. So, this is something which is a continuous process for us.

Sukhbir Singh: Okay, sir. And sir like how much capex we will be incurring for capacity expansion, solar power, like can you provide any color on it?

Dinesh Nolkha: At the moment, I will not be able to give you the number but it will be meaningful. We are looking at various options like we can, if we get into solar park, then we can go for a SPV kind of thing also where we invest part of the equity and get the power done for us. So, that is also in the making.

Also, in our own in-house, whatever capacity is available, definitely that is also happening. So, I think last year we did, we had spent -- in the first half itself, again we have spent INR12, INR13 crores. So, the run rate will continue, we will continue to invest in that but the exact number at the moment, I will not be able to give you.

Sukhbir Singh: Okay, sir. I understood. Sir my second question is like, sorry if I missed earlier your comment on this. What will be the like price difference in cotton like for example, for cotton price in Australia, between the Australia and Brazil and Indian cotton prices like we are importing the cotton. And so, like what is the final benefits we are getting here –India is getting, and like how much is the difference between the prices and how it will perform in the like near future prices.

Dinesh Nolkha: Definitely, near future -- means first of all the forecasting depends on all these prices or let it be Australian or Brazilian or US or any other region most of the time that is priced on the basis of the New York futures and a premium on that. At this point of time, if you see the landed costs especially in India, Australian cotton is the most expensive one but that has a better yield, better quality, better products being made. So, overall that remains more or less equal to the Indian cottons.

So, second is Indian cottons which has moved down substantially from what it was about one and a half month or so in the end of September. From there it has come down but still it is expensive. Landed cost, I am talking about the landed cost only.

And thirdly, the Brazilian is cheaper but that has its own disadvantages as well. It has, it is more or less behaving like the -- in terms of yield, productivity and others like Indian cotton. So, depends not on the type of cotton which you are sourcing and which you are using and the kind of product which you are making. So, accordingly we have to right size our requirements of cotton and then accordingly -- according to our product, we have to right size the cotton which is being used in the, in sale.

Sukhbir Singh: Okay, sir. Thank you so much, sir

Moderator: Thank you. As there are no further questions from the participants, I now hand the conference over to Mr. Awanish Chandra for closing comments.

Awanish Chandra: Thank you Neha. Dinesh sir, before taking your closing comments, one last question at the expense of repeating on capacity side. You did talk about that you are evaluating all your options in terms of product segment and everything. But if you can indicate some ballpark figure, what kind of capex as compared to our earlier capex in terms of size or segment or anything you can indicate. Plus, when we can expect in terms of tentative timing when we have some new capacity. Any ballpark indication will help.

Dinesh Nolkha: At this point of time, we are, if we see from the point of view of size of the expansion, that doesn't -- will not, I will not be able to actually talk about it because we are not firmed up the sizes. We are evaluating various options which is available. We have been in spinning and growing consistently our spinning business and achieved a reasonable size and leadership in that. So, definitely that is an area where we want to continue, but as we all are seeing that the margins are under pressure. And we are not expecting, until and unless the demand is extraordinary and comes up to the similar level what was there earlier in the international markets, we do not expect the margins to come back. So, we have to evaluate our various options while going in for capacity increase in that particular segment.

And we need to look at the products where we can have better margins. As far as -- so, that is one of the major chunks of the investment which normally used to happen in our last few expansions. So, we are still evaluating whether what kind of capacity we need to increase or whether we should increase or not. That is something which we are evaluating at this point of time.

In the fabric business, it has been a relatively new business for us. We have established us in a reasonable manner. And there also we have to look, we have still, in many of the products we are still not available, especially on the apparel side. So, we are evaluating what are the kind of products which we should be in and accordingly increase our capacities in that particular segment. There also the issues going forward will come on the margin side because of the capacities which are up and operating already in the country. So, we need to look at all those facts and figures before getting into any capacity.

So, I will not jump on the exact number but definitely as our past history goes, we will continue to grow from here. And very shortly we will come up. It will not take much time before we let you know about this. Definitely before this financial year ends, definitely we will come with something going forward as well.

Awanish Chandra: Okay, sir. Thank you very much, Dinesh sir and Maheshwari sir.

Dinesh Nolkha: And further, as you said, as you asked, when do you expect the new capacity? So, as you know, the capacities are not too much coming and the equipments are also easily available. The ramp up time should also be much lesser than what it was in the past also. If we decide to whatever capacity we decide to add up on that side.

Awanish Chandra: Okay, sir. Thank you very much for this elaborate answer. So, thank you very much, Dinesh sir and Maheshwari sir for giving us this opportunity to host the call. Before closing, sir, any final commentary from your side?

Dinesh Nolkha: Definitely, I would like to thank everyone for taking out time for joining the call, earning call of Nitin Spinners. I hope we have been able to address all the queries. I also want to thank SMIFS and Awanishji for hosting the call. And for any other further information, you can get in touch with our finance team or our Investor Relations Advisor SGA. Thank you once again for taking the time out and happy festive times once again to all of you.

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