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BSE Ltd.
PhirozeJeejeebhoy Towers
Dalal Street
Mumbai – 400 001

Company Code – 532698

National Stock Exchange of India Ltd.
Exchange Plaza, C-1, Block G,
BandraKurla Complex,
Bandra (E),
Mumbai – 400 051.
Company ID - NITINSPIN

Sub. : Transcript of Analyst/Investor Earnings Call held on 30.01.2024

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 January 30, 2024 on Operational and Financial Performance of the Company for the Quarter and Nine Months ended on ended 31st December, 2023. The same is also available on the website of the Company i.e. www.nitinspinners.com.

Thanking you,
Yours faithfully,
For- Nitin Spinners Ltd.

Sudhir Kumar Garg
Digitally signed by Sudhir Kumar Garg
Date: 2024.02.02 14:15:47 +05'30'

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

"Nitin Spinners Limited
Q3 FY'24 Post-Results Conference Call"
January 30, 2024

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 30th January 2024 will prevail.

MANAGEMENT: **MR. DINESH NOLKHA – 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 Q3 FY24 Post Results 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. Should you need assistance during the conference call, please signal an operator by pressing star, then zero on your touch-tone telephone. Please note that this conference has been recorded.

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

Awanish Chandra: Thank you, Manuja. Good evening, everyone. On behalf of SMIFS Limited, I welcome you all to quarter 3, FY24 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, Managing Director of the company and Mr. P. Maheshwari, CFO of the company. We will start the call with initial commentaries on the results then we will open the floor for questions and answers.

Now, I will hand over the call to Mr. P. Maheshwari, CFO, over to you, Maheshwari sir.

P Maheshwari: Thank you,Awanishji , goodafternoon and welcome to all the participants to this Q3 and nine-month FY24 earnings call of the company. 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, Shri. Dineshji, elaborate on present industry and the business scenario, I am giving brief financial highlights for the quarter and nine months ended 31st December, 2023.

Revenue for the current quarter was INR750 crores against INR737 crores during Q2, FY24, that is an increase of 2% Q-on-Q basis and on year-on-year basis, revenue increased by 40% from INR537 crores in Q3 2023 to INR750 crores in Q3 FY24. Cumulative revenue for nine months of the current year is INR2,105 crores against last year's same period revenue of INR1,752 crores. That is an increase of 20%.

EBITDA for the quarter was INR103 crores as compared to INR82 crores in Q2 FY24 and INR60 crores in Q3 FY23. Cumulative EBITDA for nine months is INR261 crores against INR226 crores in the same period last year. EBITDA margin for the quarter is 13.7% as against last quarter margins of 11.2% and Q3, FY23 margins of 11.1%. Profit after tax for the quarter is INR31.75 crores as against INR31.70 crores in Q2 FY24 and INR31.58 crores in Q3 FY23.

Cumulative PAT for nine months is INR92 crores as against last year's same period PAT of INR126 crores. EPL and cash EPS for the quarter is INR5.65 and INR11.83 per share respectively and nine months EPS is INR16.43 per share and cash EPS for nine months is INR31.05 per share. That is all from my side.

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

Dinesh Nolkha: Good evening everybody. Thanks for joining in this conference call.

After several challenging quarters, the textile and cotton yarn industry has seen some improvement during this quarter, especially in the export demand and the various end-user segments.

On the raw material front, the major positive development was on the cotton side, which has remained stable and marginally below international prices. Moreover, availability of cotton was also quite reasonable.

Furthermore, the utilization in the spinning and weaving has been near normal levels. The woven apparel segment has witnessed improvement due to increased offtake by the retail brands. This has particularly led to the margin improvement and increase in cost competitiveness of the industry as a whole. However, global challenges are still prevailing due to which margins remain below the normal levels.

To summarize, while challenges persist, I must say that the textile and cotton yarn industry is on the path of recovery and the industry stands resilient and optimistic. The collective efforts of all the stakeholders, government, coupled with strategic initiatives, position our industry pretty well for the sustained growth going forward.

Coming on to the company's performance, the utilization of spinning and woven fabric has been near optimal in the quarter with all capital expenditures successfully completed in the given time frame.

Knitted fabric utilization saw an improvement, reaching approximately 60% level. This positive trend resulted in quarter-on-quarter volume growth. However, the increase in top line was only 2%, primarily due to increasing selling prices, resulting from lower raw material costs.

Export growth was observed, thanks to the stable raw material prices during the last 4-5-6 months. As a result of increased capacity utilization and favorable cotton prices, margins have improved during the current quarter. However, still the margins are not at the normal levels due to the pricing pressures.

Looking ahead, our strategic focus for the upcoming quarters revolves around optimizing the product mix and optimizing our increased production capacities as well, and refining the product mix to increase the value-addition. With completed capital expenditures, we are quite well prepared to meet the anticipated demands, which we think will come very shortly in the coming quarters. this is all from my side.

I would like now to open the floor for the question-and-answer session.

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 Security Private Limited. Please go ahead.

Manish Ostwal: Thank you for the opportunity and very good set of numbers for the quarter and strong recovery in the margins. Congratulations to the team, Nitin Spinner for that. My first question on the demand trend, which you spoke about in your initial remarks. So in exports, we are seeing some green shoots from other players' commentary. How do you see the demand sustainability in export markets and how the domestic market is behaving after the festive season? Can you comment on these two points?

Dinesh Nolkha: Regarding yarn demand overseas, as you can see -- if you see our numbers and as a whole for the country, the demand has increased. Basically, we are exporting nearly 100 million to 110 million kgs of yarn per month at the moment in the last 4, 5 months. One year back, it was about 50 million kgs.

So overall -- this is at the levels for the year 2021 and 2022, then,it was around 110 million to 120 million kgs only. Only in between for the year 2023, later part of 2022 and 2023, we saw a dip in the demand. So this has been a normalcy level which has come in. And the demand is coming overall from all over the world. It is not only one particular region.

Of course, the demand in China which has dropped down substantially. The same has also picked up after the reduction in the cotton prices in India.

We saw that when the cotton rates in India reached a parity level with the international cotton, Then the demand from China also improved substantially. This was one area, especially in the cotton yarn, where the demand was better.

As far as domestic demands are concerned, I think domestic demands have been quite robust. The pipelines, I would say, the channels, the inventory levels at all the different segments of our industry is at quite low levels. There is a robust demand, especially we are seeing in the apparel side, that the demand is quite reasonable and also in the home textile sections.

Manish Ostwal: It is very heartening to see that demand is recovering. Second question on the margin side. We have seen a very sharp recovery margin from quarter two to quarter three. So if we assume the RM cost where it is, then these margins are sustainable in your opinion, sir?

Dinesh Nolkha: Definitely, these margins are below normal margin levels, I must say. Here, if you see, in the normal circumstances, our raw material costs are around 60%. If you see one year before, it was in the range of 58% to 60% for us.

Now, for the last one year, it is ranging between 66% to 68%. Now, again, in this particular quarter, the raw material cost was about 64%. I feel this is quite sustainable.

Manish Ostwal: Okay. And last, one small data point. What is the gross debt and cash and balance sheet and capacity utilization of the new facility? What is the current utilization level of the new facility? Thank you.

Dinesh Nolkha: Capacity utilization of the new facilities, especially on the spinning side, has reached 90% level. In the last quarter, since part of the unit was capitalized in between, commercial production started on 30th of November. So, in the last quarter, it was slightly lesser.

But now, everything is running at 90% plus level. And we expect to improve this further to another 3- 5% to the 95% level, which is our usual level. As regarding debt, our total long-term debts are about INR1,000 crores and the short-term debts are about INR375 crores. So, total debts at the end of December is about 1375 crores.

Manish Ostwal: Any outlook for the debt reduction FY '25-'26, sir?

Dinesh Nolkha: Actually, for us, all these long-term debts are at reduced interest rates, incentivized interest rates. So, instead of reducing them much, we are normally repaying as per the repayment schedule, which is about INR130 crores, INR140 crores every year. We continue to repay that. So, that repayment will continue. Plus, whatever cash accruals we are doing, that actually reduces our working capital loans.

So, accordingly, whatever earning is there will go into the reduction of the debts only, apart from the normal capex, which we are doing during the year.

Manish Ostwal: Thank you, sir. Thank you for answering all the questions and all the best for the coming quarter. Thank you.

Dinesh Nolkha: Thank you.

Moderator: Thank you very much. The next question is from the line of Subrata Sarkar from Mount Intra Finance. Please go ahead.

Subrata Sarkar: Yeah. Sir, just two questions from my side. First is, when we are planning the next capacity expansion, because we are almost at 90%, number one, sir. And whenever we are planning, what will be our source of funds for that? Whether we will depend mainly on internal accruals or like we have some fundraising plan and fundraising on the equity side or entirely from the debt side?

Dinesh Nolkha: We are definitely, you are right that we are utilizing 90% of our capacities, but that is a normal feature for our company. And normally, we look at our margins and the demand side that, , when we get better demand with higher margins, then only we look to expand our capacity. At this point of time, , we have not contemplated any major expansion.

We have small capacities or debottlenecking keep on happening in our company with the internal accruals. And since there are no expansion plans, there is no plan to raise funds either from debt or equity.

Subrata Sarkar: Okay. So, a follow-up question like, what kind of margin generally, at what kind of margin generally we plan for new capacity expansion? Because last year, like last time when we planned, our margin was around 23%, 24% EBITDA margin I'm talking about. So, I'm just --

what is your thought process like that, what kind of margin and like, we think of new or fresh expansion?

Dinesh Nolkha: While taking expansions, we need to take two things in consideration. One is the return on capital employed, whatever we are deploying the capital, what is the payback of that? And along with the sustainability of the products which we are going to manufacture and sell.

So, it is the margins of those products. Normally, with the kind of structure we have in our company, we think whenever the EBITDA levels are at in the range of 16% to 20%, that is quite a reasonable level where we can think about adding the capacities, especially in the yarn side. Whereas in the fabric side, it is on a higher side. So, we need to balance both of them accordingly and then plan for the capacity expansion.

Subrata Sarkar: Okay. And so, what kind of time period we look for, for payback period? Like, what is the payback period we generally target for any expansion?

Dinesh Nolkha: Normally, we target for five years.

Subrata Sarkar: Okay. Thanks, sir. Thanks so much.

Moderator: Thank you very much. The next question is from the line of Marshall, an Individual Investor. Please go ahead.

Marshall: Yeah. While going through this financials, there was a note that the company is eligible for certain incentive from the Rajasthan government and it has not been accounted for yet. So, can you please spell out what is the accrued incentive for the Q3, Q2, and Q1, which has not been accounted for yet?

Dinesh Nolkha: There is all the accrued incentives up to now has been accounted for. only for the new expansion project,. We are yet to receive the approval from the state government, which is going to be accrued to us once they give us the permission for that. We feel that once we have a firm figure in hand and the dates in hand, of course, we have announced our expansion, commercial production from 1st of October and also part of it from 30th November.

We are yet to get the final letter from them, from which date the incentives will be accrued. So, then only, so as of now, I can, I will not be able to comment on the amount for the quarter, particular quarter.

Marshall: The question is that, there is a prescribed policy and we know that how much we have incurred on the capex and what is the eligibility criteria for each kind of capex?

Dinesh Nolkha: Yes, yes, okay.

Marshall: How much of all worked out? We are told you for that.

Dinesh Nolkha: Okay, okay. So, basically you want to know what is the total amount of incentives you are going to get. Yes. So, basically, we will be eligible for two kinds of incentives. One is the interest incentives, which should be, once it is operational, should be in the tune of about INR20 crores every year, which is not being considered here in these numbers. So, whenever that is getting sanctioned, then we will accordingly account for the same.

That is one part. And secondly, we will also be eligible for capital subsidies, which will also be in about next 7, 8 years, we will be getting about INR200 crores plus of capital subsidies.

Marshall: So, it means INR25 crores per year…

Dinesh Nolkha: Yes, yes. All these numbers I am giving on the basis of the policy which is imprevalent and we have applied for that. So, accordingly, once we get the sanction, then the amounts will change here and there.

Marshall: Yes, yes, yes. No problem. I understand that. So, basically, roughly, like I come to, you can say about approximately 10 crore per quarter we must get per quarter.

Dinesh Nolkha: I think, yes, it should be, that should be there. We should be getting around INR40 crores every year.

Marshall: Let me just re-explain you. So, as you mentioned, there is about INR5 crores for the interest of INR20 crores, so quarterly INR5 crores and then you said about INR800 crores, sorry, sorry, INR200 crores you will be getting for the capital subsidy over seven, eight years. So, eight years, if I take, so it is INR25 crores per year. So, like for a quarter INR6.25 crores, total about INR11.25 crores. Am I right?

Dinesh Nolkha: Yes, that's, so I told INR40 crores every year, yes.

Marshall: Sorry?

Dinesh Nolkha: Yes, I told INR40 crores every year.

Marshall: INR40 crores per year. So you are right, you are right. Okay, okay. And second thing, when you said, okay, that something, some part was commissioned in September also, so does that mean that since it was capitalized on 30th September, so will we get one full quarter capital subsidy for September quarter also?

Dinesh Nolkha: That is, that is what is not clear to us. That's why we have not accounted for. So, that is what the government permission has to come in.

Marshall: Okay, no problem. But, yes, my second question regarding this volume, just like I just made a like thumb rule, you can say back off the office, like, sorry, like back off the envelope calculation. Yarn sales growth has increased by 15% over Q2 to Q3, but its revenue realized only like increased by 1% and fabric volume growth has been 43% over Q2 to Q3, but the revenue is only 4% decrease.

So we can see that like there's a huge, for example, you can say that like a price deterioration vis-a-vis Q2 and Q2 was also a sluggish period. I'm not comparing two years back when there was boom in the textile, but like Q2, like Q2 FY24 versus Q3 FY24. So there is a huge gap. Can you please explain this one?

Dinesh Nolkha: No, I think there is some confusion, there is about 42% increase in this year in the quantitative production… volume wise, I think in Q2 to Q3.

Marshall: No, no. I remember knitted fabric, knitted fabric I meant to say, knitted fabric is –

Dinesh Nolkha: No, knitted fabric numbers, but knitted fabric numbers have not been given what is the sale price particularly. Individual sale price has not been given there?

Marshall: No, no. It is given only fabric.

Dinesh Nolkha: Yes, it is. So you are looking only at…

Marshall: No, no. So, like, so like next time, just like when in the volume side, when you are giving a yarn separate, knitted fabric separate, then gray and woven fabric should be separate. Then correspondingly in the next slide, we should have the same thing. Otherwise, it misrepresents like, like it's happening just now.

Dinesh Nolkha: Okay. No problem. Anyway, we'll, we'll look into that. And basically just -- So just for your information, knitted fabric price has remained flat. It has not decreased at all during this particular quarter. It has remained at the same level.

Marshall: Sir, I missed you. Kindly repeat, sir.

Dinesh Nolkha: So knitted fabric price has not reduced. It has remained at the same level as it was in the last quarter. Flat, it has been flat. In the woven fabric business, the prices have gone down by about 2% in comparison to the last quarter, 2.5% to be precise, from the last quarter. And for the yarn side, I think the yarn prices have gone down by nearly, just a minute, it is about 2% decline, I think.

Marshall: Okay. So, so any reason for the, for the reduction of prices or like, do we see any, any like silver lining in the next quarter? Currently, currently how the prices are hovering?

Dinesh Nolkha: Because cotton prices have also fallen by more than 10%. So that's why the basic yarn prices have also fallen by 6%. So it is linked with the raw material prices. So that has resulted in this particular reduction as well.

Marshall: Let me put it differently, for example, what were the margin in yarn or the fabric in Q3? And how we currently, we are standing, for example, like almost, almost, how is the margin, same or better or lower? You don't have to be precise, just an idea.

Dinesh Nolkha: We do not give the numbers for the margins for the separate -- for, because it's an integrated mill and we are not able to give separate numbers

Marshall: So in terms of prices, in terms of prices, how the prices are currently faring? Yes, vis-a-vis average price of the Q3?

Dinesh Nolkha: As of now, more or less at the same levels as Q3.

Marshall: Okay, okay. So any silver, sorry, like what is the growth -- what is the growth trajectory for the, like...

Moderator: Sorry to interrupt, sir. Can you join the queue for the follow-up questions? Marshall?

Marshall: Okay. So can I continue or shall I come back?

Moderator: Please join the queue.

Marshall: Okay, okay, will do.

Moderator: Thank you. The next question is from the line of Chirag Shah from White Pine. Please go ahead.

Chirag Shah: Yes, thanks for the opportunity. So the first question is, if you look at the industry, there seems to be a tailwind where generally utilization is going up. And I'm talking about across the chain, we are seeing somebody seeing a better, faster improvement and slower improvement. What is driving this improvement, sir? Is it restocking that is driving the improvement or is it genuine demand which is driving the improvement? And if you can give some colour both for domestic as well as export, it would be helpful.

Dinesh Nolkha: First of all, this demand, this downturn which we saw in last one year was because of the de-stocking. So inventory had gone down to, if you see the numbers of various retailers as well as internationally as well as in India, you will see the stocks levels have been substantially reduced in last one year. And that is, so they have reached a non-sustainable level.

Basically, normally the industry has to keep certain inventories to maintain their operations even in the retail as well as in the manufacturing lines. So because of this reduction, now no more reduction is possible. So there is no demand contraction on that side. Demand per se on the retail side as volumes, if you see, more or less have remained stable in last five, six months.

And accordingly, the same is reflected in the utilization of the textile manufacturers. This is happening globally. This is happening in India, particularly in better terms, not globally because of the various challenges people are facing in their own countries.

Chirag Shah: Why I was asking this question was, and if you can help me to understand, when we look at some of the retailers' commentary, in general, the demand or the final sales is not been that great versus the kind of utilization jump that we have seen. So the question is, is it a one-time event that you may reach 95%, 100% utilization levels because once the restocking happens, again, we can see some downward pressure in demand. Is this the way we should think unless demand really revives in a very strong manner?

Dinesh Nolkha: I will explain it to you in a different manner. Last year, when we were not utilizing our capacities and the capacities were down, we did not saw any reduction in the sales of the retailers. Rather, retailers' sales were continuously growing. So if it was X, then it is X plus 10%, 15%, 20% in last three, four quarters. By now, they have reached a level where they are not able to increase the sales because of two reasons.

One, the overall prices of the products have come down. Volume may have -- would have not come down, but the prices of the finished product has come down because the raw material has come down substantially in last one and a half years from -- to nearly half. One year back, maybe about 15 months back, the cotton prices were like INR1,10,000 a candy, which is INR55,000 or $1.50 to $0.80, $0.85 now.

So that is also one of the reasons why you are not seeing in the numbers the increase in the sales. But if you see on a year-to-year basis, you will find that overall volume of most of the retailers have also increased. And accordingly, this is not anything. Still, I think no restocking has started. I do not see anywhere in our industry any restocking happening or some people are increasing or sitting on too much of stocks.

So we are not at all concerned about that restocking will happen. As far as utilization is concerned, if you see the history of our company for 10 years, I think barring nearly two-three months in last year from August to November-December, we have always utilized our production capacities to the optimum levels of 90%-95%. So you need not worry on that particular front.

Chirag Shah: Okay, sir. I was asking from an industry perspective. Nitin -- I understand very well about your approach. Because it also helps you as a tailwind if the industry is improving, your profitability really shoots up.

Dinesh Nolkha: Definitely, it is improving. You can see the utilization levels across the industry has improved. Some of the inefficient units, because of their own legacy issues, are going down. And that is the only reason. Otherwise, you can check this by seeing the raw material consumption side also. There are raw materials like polyester, there are raw materials like viscose, as well as cotton. Their consumption figures, it is only used in textiles. So you can see the numbers. From there, you can also judge that overall the utilization level has gone up only.

Chirag Shah: Sir, one last question if I can ask. When is restocking to normalized level of stocking? When I say restocking, I am using the word to normalize level and not getting exuberant and overstocking kind of a scenario. So if the restocking is starting today, it generally takes two quarters for them to go to normalized level of stock. Is that the right way to look at it?

Dinesh Nolkha: Actually, why this stocking or slightly improved normalized level of stocking is happening is because most of the value chain stakeholders are considering that we have reached the bottom of the cycle. We have seen already the lowest level of the raw material prices and there is no room from here to go down. At that point of time, normally people start increasing their stocks or bringing it to the normal levels.

In last one year, everybody lost on the inventories. Whatever they have bought, when they go in the market to sell, they have lost the money on that side, whether on the margins or whether basically on the cost side as well. So this is something which overall the value chain partners are thinking that we have now reached a level where we can increase our inventories to normal levels, which could in turn increase our sales also going forward.

Chirag Shah: But this could be a three-quarter phenomena, where generally it plays out in a quarter?

Dinesh Nolkha: Generally, this is one of the longest periods of this kind of slowness in our industry. Normally, this cycle does not last for this long. We have seen this due to multiple reasons for 15, 18 months we have seen this kind of cycle. I think we should have a normal period of, I think from FY'25 onwards, my feeling is that we should have normalized year as we used to have pre-COVID.

Chirag Shah: Okay, great. Thank you very much and all the best.

Moderator: Thank you very much. The next question is from the line of Vikram Suryavanshi from PhillipCapital. Please go ahead.

Vikram Suryavanshi: Yeah, good evening, sir. Sir, what was our captive yarn share now with this post-expansion?

Dinesh Nolkha: I think we are consuming captively about 24%-25% both in knitting and weaving. We are consuming 25% of our volumes.

Vikram Suryavanshi: Okay. And would it be possible to give what was the knitted fabric sales in this quarter or nine-month, whatever is possible?

Dinesh Nolkha: I think it was 20% on the woven side and 5% on the knitted side.

Vikram Suryavanshi: 5% on knitted side?

Dinesh Nolkha: Yes.

Vikram Suryavanshi: Okay. And just to your comment now, cotton prices have come too close to MSP. Probably that could be the bottom. So, how we are looking at the buying strategy? Are we buying aggressively and holding the stock or buying as a required basis? Or what is thought process on cotton prices if you can give some views on that?

Dinesh Nolkha: Normally, whenever if you feel that the inventory levels are down, normally people in the industry we have a tendency to increase our inventory levels, especially on the raw cotton side because it is a seasonal product. So, similarly, we will have to increase our inventory levels so that we do not have any issues in the later part of the year for the raw materials. However, we have to also look at the global pricing as well.

So, it is very important to look at what is the global pricing and what is the global outlook overall. So, that is not very encouraging. We are not seeing any great signs of price increases in the raw material going forward at this point of time at least. So, we do not foresee any -- too much increase in the raw materials in the coming four, five, six months. Maybe they should remain at this level. And so, people will accordingly basically go in for their inventory levels as per the finances available with them and what is the financial cost involved accordingly.

Vikram Suryavanshi: Understood. Thank you very much.

Moderator: Thank you very much. The next question is from the line of Naitik Mohata from Sequent Investments. Please go ahead.

Naitik Mohata: Congratulations on good set of numbers and thank you for the opportunity. Most of my questions have been answered. Just a couple of questions. With respect to the incentives that we might be getting regarding the interest as well as capital. So, what would be our interest cost guidance for FY'25 and onwards?

Dinesh Nolkha: Maheshwariji, can you highlight on this part what will be our interest cost for the next financial year?

P. Maheshwari: Yes. Sir, next financial year interest cost net of subsidies will be about INR90 crores.

Naitik Mohata: INR90 crores. Okay, that's helpful. Also sir, if you could throw some light on exports. So, basically which countries do we export to? And from the commentary of couple of our peers, I have been listening that there is a kind of a demand for the upcoming quarters because the transit time towards western countries has increased. So, are we seeing that as well?

Dinesh Nolkha: We export to nearly more than 50 countries all around the world. And we have wide exposures even in Europe as well as in America plus in Latin America, China and to some extent, very small extent in Australia as well. So, we are basically present in all the six continents.

Now, coming to your second part of the question, the traction, it is just one month and we have seen that lot of goods which has been shipped out is already reaching the shores of our customers. For the next bookings, they are discussing with us that maybe the transit times will increase.

So, accordingly, they will start preponing their requirements. Let's say, if somebody wanted to have shipments by the end of February, he would now request that he knows that the transit time is going to increase by 15 days. So, that will be preponed.

So, definitely, whatever increase in transit time is there due to this Red Sea crisis. It will definitely help us in preponing the requirements. So, even in this kind of industry where -- but this is not all across the world. It is only on the western side.

It is only this increase in transit time happening only for Europe or for America or for Latin America. But on the other side, on the eastern side, for China as well as for Bangladesh or for Vietnam or for Korea, all these countries will have a normal transit time. So, we will have to see how this pans out.

Even if our customers are seeing that their transit times are increasing, so they will accordingly plan their schedules for the production as well. So, overall, we feel that maybe 10 to 15 days extra product should go in coming five to six months. That is the general feeling in the industry as such.

Naitik Mohata: Okay. Thank you.

Moderator: Thank you very much. The next question is from the line of Kaushal Kedia, an individual investor. Please go ahead.

Kaushal Kedia: Hi, sir. Sir, do we see any challenge in getting the subsidy? Is it like dependent on something, some condition that is conditional on something that is not being fulfilled or it is just a matter of formality?

Dinesh Nolkha: Basically, in Rajasthan, where we are based, we have conditions of investments that we need to fulfil the investment criteria and secondly, on the employment. The number of people we are going to employ for this investment. So, both have been already fulfilled. We have spent the money and already we have started the operations. So, I do not see any challenge there.

Kaushal Kedia: Okay. So, that's great. Okay. Thank you. That is it from my side. Thank you.

Moderator: Thank you very much. The next question is from the line of [Aditya Ambani from AK Capital]. Please go ahead.

Aditya Ambani: Thank you very much for taking my questions and congratulations to the management team on a good margin performance. So, better than many other listed peers. Sir, few bookkeeping questions from my side. Sir, now we have changed this depreciation. So, we have charged almost INR35 crores of depreciation. So, it is the full depreciation we are charging now and what will be the quarterly run rate now going ahead?

Dinesh Nolkha: I think for the quarterly run rate should be in the range of about INR36 to INR37 crores. Maheshwariji, am I right?

P. Maheshwari: Yes, sir. You are right. It will be about INR36 crores per quarter going forward.

Aditya Ambani: Okay. Got it. And sir, what would be the maintenance capex for the existing gross book?

Dinesh Nolkha: Basically, most of our plants are pretty well maintained and whatever normal maintenance expenditures are booked as a part of our revenue. Whenever we do some value addition or we do debottlenecking, only those kinds of capex are being capitalized. So, there definitely we have plans to spend about INR40, INR50 crores rupees next year going forward for upgrading our facilities for new value-added products or maybe improved efficiencies or maybe also to improve the production capacity also.

Aditya Ambani: Okay. So, annually, so around INR40 to INR50 crores, so we should like build in?

Dinesh Nolkha: Yes, not more than this. The past history does not suggest even INR40 to INR50 crores. It has been below this only.

Aditya Ambani: Got it. Sir, my third question is that interest cost was high, sir, and you did explain in note also. Sir, please if you can highlight like how much our RIPs benefit we could not book and when that approval comes, how much interest cost will go down?

Dinesh Nolkha: I have explained in my earlier question also that our interest subsidy per annum will be in the range of about INR20 crores. So, it should be INR5 crores every quarter. Additional interest subsidy which we are going to receive. Already we are receiving some interest subsidy on our old loans. Additional interest subsidy should be around INR20 crores. So, that will be about INR5 crores per quarter.

Aditya Ambani: Okay. Any reason, sir, for delay in this RIPs approval or process when it starts after commissioning and if so, how much time it will take and will there be any loss due to this delay?

Dinesh Nolkha: I think only that, we should lose interest. If this gets delayed, we lose interest on that money which we should receive immediately. Major reason for the delay was that fortunately or unfortunately when we started the production, the elections were there in Rajasthan in early November. So, all the government machinery was not working. They started reworking only by the end of December. So, the process has already started. I think within this financial year, this issue should get cleared. So, and then you will start receiving the money.

Aditya Ambani: Got it. Sir, my next question was on to the Red Sea crisis. As you highlighted to an earlier participant that there is an increase into the transit time. So, most of the customers are preponing their purchases. So, sir, are you also getting a pinch on to the freight cost? And also, sir, if you can explain into our total exports, how much of the contracts are booked in FOB and in CIF?

Dinesh Nolkha: Yes. First of all, for whatever new businesses which we are doing, that is the increased freight cost. So, that is one part that is very clear that has increased. In our existing businesses, we have FOB as well as CIF contracts. And with the contracts which we have, this is affecting only the contracts which we have for Europe as well as for Latin American side. So, there in the Europe side, the cost has become 4X, 3.5X to 4X. And normally our cost used to be about 1% of our sales value. The freight cost used to be about 1%, sometimes even below for Europe.

So, overall, if you see in this particular quarter, we could see – if you see the total sale level, you could have an impact of about 50 basis points. Overall, if you consider already the contracts which have been booked and we have to pay higher freight. In some of the cases, we have FOB contracts also. So, there, there is no impact. And also, any contracts which are there on the Eastern side, there is no issues with that.

Aditya Ambani: Got it. Sir, on to the Europe side, as you mentioned, so there is almost a 3X to 4X jump. So, is there a possibility like this can be off stetted by passing on or you still see that demand is not that good in Europe? So, that could still remain an issue.

Dinesh Nolkha: That is getting passed on. Even the customers understand it very well. And whatever new business is happening, is happening at increased prices. And even they are also ready to take a load, take a part of whatever additional cost has been incurred. It is an extraordinary cost. And accordingly, they are also sharing the additional cost also in some cases.

Aditya Ambani: Got it, got it. Sir, just one last question. Sir, whenever we set up a new plant or a new business into this, so what is the threshold internal IRR we work it? Like, suppose, like if you want to set up a business, so what is the like minimum level of IRR at the company level which you are like look at? 15%, 20%, any such figures, sir?

Dinesh Nolkha: It keeps on changing. It keeps on changing with time. Maybe 10 years back, we used to think that we should have any business with less than 20% IRR is not as good. Today, we would be happy with 15%. So, it depends on the circumstances, the opportunities available. But at present cost debt, we would be happy if we get around 16% to 18% of returns. Because basically our cost of debts is lesser, much lesser. So, on the equity side, we get a good return of about 30% plus. So, then we are quite okay with that.

Aditya Ambani: Okay, 16% to 18%. Okay, got it.

Dinesh Nolkha: Yes.

Aditya Ambani: Thank you, sir. That's it from my side.

Moderator: Thank you very much. The next question is from the line of Vikas Rajpal from SMIFS PMS. Please go ahead.

Vikas Rajpal: Hi, sir. Thank you for taking my questions and congratulations on a good set of numbers. I have a few bookkeeping questions. So, first of all, if we consider your total top line with respect to what your capacity utilization is right now, I mean, in the next year, you should clock around INR3000 crores in terms of revenues. And even if we assume 15% margin and INR90 crores in terms of interest cost, I mean, we could safely assume that the bottom line should be around INR165, INR170 crores or bottom line which would be similar to the levels that we had seen in FY'23.

And with the spread remaining largely stable, I think if we have to drastically show improvement in terms of profitability, we will have to probably expect the spread to increase also drastically. So, what is basically your view on that? I mean, what is different compared to when we were doing 20% kind of margins and what is different right now which stops you from basically achieving those kind of margin levels? So, that's my first question. So, if you could just answer that first and then I'll take it ahead.

Dinesh Nolkha: I do not want to get into your numbers. If you are putting the numbers in my mouth, I do not want to get into that number crunching game. So, let's not be there. Your second part of the question is, I would like to first reply on that, that what is different? That is, the difference is the push and pull in the demand.

Basically, today in the last one year, we are utilizing our capacities. But we are just pushing the sales. We are after our customers and we are trying to poach the customers, I would rather say that way, to our side by giving them attraction in terms of prices, which reduces our margins. So, we are able to utilize the capacities.

And on the other side, when you see that there is a demand pull happening and the customers themselves want more and more, that is the difference when you see that the margins automatically improve. So, basically, this kind of environment we have seen in the past in particular and we have not seen this kind of low cycle of 15, 18 months on a continuous basis for a long time. So, I think it is high time that we should be in the better margin scenario going forward. Unless something drastic happens internationally with regards to geopolitical situations.

Vikas Rajpal: But sir, then again, I mean, it gets back to my first part only. I mean, because in that case, we will have to assume the spreads to improve drastically because we are already…

Dinesh Nolkha: Yeah, it is a combination. If your prices increase, then your top line also increases. So, that is also a kicker for that. You can see our numbers of year 2022. Then without the expansion capacity, our top line was about INR2,700 crores.

So, if those kinds of prices come back, maybe today our top line could reach, instead of INR3,000 crores what you are contemplating, it could reach even INR4,000 crores. So, that is when the prices increases and along with that margin increases, you see much higher bottom line coming out.

Vikas Rajpal: Fair enough, sir. And sir, could you just again provide me with the breakup between long term borrowings and the short term borrowings of the total INR1,350 crores?

Dinesh Nolkha: I think long term borrowings are about INR970 crores. As on December 23, and short term borrowings are about INR375 crores.

Vikas Rajpal: INR375 crores. And sir, you said that you will do a yearly repayment of around INR120 crores, right?

Dinesh Nolkha: INR135 crores, INR140 crores,

Vikas Rajpal: Okay. And sir, if suppose in the next couple of years, when you feel that there is a need to increase the… I mean, there is again need to increase capacity, then again we will probably have to go back to raising debt. Then I think, I mean, what is the feeling for you in terms of debt to equity, which you would not want to breach?

Dinesh Nolkha: I mean, we would be, we are okay with 1:1 debt equity. To have a reasonable return on our equity, we would prefer to have 1:1 debt equity. We are at the moment at about 1.2 point, long term is of course less than this, but we are at about 1.20, which would correct automatically within one year's time to 1:1.

Vikas Rajpal: All right, sir. Thank you.

Dinesh Nolkha: Thank you.

Moderator: Thank you very much. The next question is from the line of Kaushal Kedia from Wallfort PMS. Please go ahead.

Kaushal Kedia: Sir, just, so you mentioned that the cost of debt will be about 90 crores net of subsidies. So this is long term and short term, right?

Dinesh Nolkha: Yes, both altogether.

Kaushal Kedia: So that works out to be about 6.7%, right?

Dinesh Nolkha: Yes, right.

Kaushal Kedia: So this has gone up slightly because of the interest rate scenario, obviously.

Dinesh Nolkha: Yes, exactly. Our average cost of borrowing is about 6.5%.

Kaushal Kedia: Okay, that's it from us.

Moderator: Thank you very much. The next question is from the line of Jatinder Goel, an individual investor. Please go ahead.

Jatinder Goel: Hello, sir. Thank you for the question. Thank you for the opportunity. Sir, I wanted to ask, like, the production for yarn for this quarter was 25,158 million tons with like additional 4%-5% more utilization going to 95%. What do you expect the quarterly run rate for production of yarn?

Dinesh Nolkha: Production of yarn, our rated capacity is about 110,000 metric tons. So traditionally, we should be able to do about 105,000 tons to 106,000 tons every year. And that should turn out to be about 26,500 metric tons every quarter.

Jatinder Goel: Okay. Thank you, sir. Thank you. That's all from my side.

Moderator: Thank you very much. The next question is from the line of Arjun Agar, an individual investor. Please go ahead.

Arjun Agar: Thank you for taking my question. I just want to know what products contribute to margin expansion majorly? And reason for this is margin expansion is so significant, basically.

Dinesh Nolkha: Can you repeat the question?

Arjun Agar: I just want to know what products contribute to margin expansion majorly? And reason for EBITDA margin expansion is so significant? That 2.5% increase in…

Dinesh Nolkha: In this particular quarter?

Arjun Agar: Yes, Q3, [inaudible].

Dinesh Nolkha: Actually, the major increase in the margin expansion has been because of the reduction in the raw material prices. You can just see that there is a… During the last quarter, the raw material to sales ratio was about 66%, and now it is about 64%. So major improvement has happened there.

Arjun Agar: Okay. Okay. Thank so much.

Moderator: Thank you very much. Thank you, ladies and gentlemen. That will be the last question as the time limits. I would now like to hand the conference over to the management for closing comment.

Dinesh Nolkha: Yeah. I hope we have been able to address all your queries. If some information or for any further information, you can get in touch with our finance team or with our investor relationship advisors.

They will be able to help you out on that. And I would again like to thank SMIFS and Awanishji for hosting this call. And thank you all for sparing out the time and joining us for this conference call. Thank you very much.

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