

Sportking INDIA LTD.

(Govt. Recognised Four Star Export House)

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To BSE Limited Phiroze Jeeheebhoy Towers, Dalal Street, Mumbai-400001 Script Code: 539221	To National Stock Exchange of India Ltd, Exchange Plaza, Bandra Kurla Complex, Bandra (East), Mumbai- 400051 Symbol: SPORTKING
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Subject: Transcript of Earnings Call of Sportking India Limited for quarter/half year ended 30.09.2023

Dear Sir,

Pursuant to Regulation 30 and other applicable provisions of SEBI (Listing Obligations and Disclosure Requirements), Regulations 2015, please find enclosed herewith transcript of the earnings call of the Company held on Monday, 23rd October, 2023 to discuss the Company's Financial Performance for quarter/half year ended 30.09.2023.

You are requested to take the above mentioned information on your records.

Yours truly,

For SPORTKING INDIA LIMITED

LOVLESH VERMA
COMPANY SECRETARY
(ACS: 34171)



“Sportking India Limited
Q2 FY '24 Earnings Conference Call”

October 23, 2023



MANAGEMENT: **MR. MUNISH AVASTHI –CHAIRMAN AND MANAGING
DIRECTOR –SPORTKING INDIA LIMITED**
**MR. SANDEEP SACHDEVA – CHIEF FINANCIAL
OFFICER –SPORTKING INDIA LIMITED**

MODERATOR: **MR. DEVANSH DEDHIA – ORIENT CAPITAL**



Moderator: Ladies and gentlemen, good day and welcome to the Sportking India Limited Q2 and H1 FY24 Earnings Conference Call. 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 a touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Devansh Dedhia. Thank you and over to you Mr. Devansh Dedhia.

Devansh Dedhia: Thank you, Zico. Good evening everyone. On behalf of Sportking India Limited, I extend a very warm welcome to all the participants on Q2 and H1 FY24 Financial Results Discussion Call. Today on the call we have Mr. Munish Avasthi, Chairman and Managing Director, Mr. Sandeep Sachdeva, Chief Financial Officer. Short disclaimer before we start this call, this call will contain some of the forward-looking statements which are completely based upon our belief, opinion and expectation as of today. These statements are not a guarantee of future performance and involves enforcing risks and authorities. With this, I now hand over to Mr. Munish Avasthi sir, for his opening remarks. Over to you, sir.

Munish Avasthi: Thank you, Devansh. Thank you so much. Good afternoon and welcome to all the participants for this Earning Call of Sportking India Limited. This being our second ever earning call, let me take this opportunity to provide a brief history of the company. There may be many participants joining us for the first time. So Sportking India Limited was incorporated in the year 1989 by late Shri Raj Avasthi and company diversified its activities with the installation of 6,000 spindles in Punjab for manufacturing of synthetic yarns in 1993.

So as a value addition exercise, the company commissioned in the year 2000, a dye house for dyeing of a synthetic cotton fibre yarn with an installed capacity of 20 tons per day. So, over the last 30 years, your company has gradually enhanced its capacity to now almost 379000 spindles as of now. Company increased their total spindle count by 35% during last year in two phases, which was first phase of 40,800 spindles and second phase of 63,072 spindles.

Second phase also got fully integrated in the current quarter, that is quarter second of financial year 24. We also undertook a capital part in creating solar rooftop project. Of the planned 25 megawatt, more than 22 megawatts have already been operationalized with the remaining coming online within next month. This was a brief journey from incorporation to this day. As you see, we at Sportking have three state-of-the-art manufacturing facilities in Punjab, with the benefit of our capability being concentrated at a single location, which provides us a good vantage point to ensure our operations remain efficient.

This is corroborated by the fact that we have one of the best utilization levels in the industry. Our product portfolio involves 100% cotton yarns, polyester cotton blended yarns, dyed yarns, acrylic yarns, as well as some fancy yarns. We work with a focus on sustainability and self-reliance. Our products have historically been accepted as leader in whichever category we work with, and we have a substantial presence in export markets with countries such as Bangladesh, Europe and China being our prime destination.

Over the years, we have expanded our export base to more than 30 countries around the globe on the back of our focus on quality supported by a dedicated sales and marketing team. This steadfast commitment towards consistent producing premium quality has earned us many marquee customers, both domestically and internationally. As a recognition of our export performance, Ministry of Commerce and Industry has upgraded our status to four-star export house in the last quarter. So this is the brief introduction about Sportking.

So now I would come to the present demand, present scenario. So at present, the demand side, the demand has been very challenging for last six months and continues to remain so. Exports have had some bump up for last six months, initially led by Chinese demand and recently demand from Bangladesh. Domestic demand has been very, very tepid for the last four and five months, very surprisingly. So basically demand has been up and down with exports and domestic taking turns in getting better or worse.

Synthetic and blended yarns have been particularly bad for last quarter as it's mostly dependent on domestic market which has been very bleak for last three months. The outlook continues to be challenging. A lot of hope is hinging on the upcoming festive season. Geopolitical issues continue to cast a shadow on business sentiment. Pipelines are getting empty but retailers don't seem to be in any hurry to fill them up. Confidence is lacking amongst the retailers, and they are wary of making long-term commitments. But there are some plus, there are some positive sides.

The cost side is very supportive. After a long hiatus of almost 18 months, cotton prices have come down very sharply to a level of 56,000 per candy, which is competitive with world prices. The freights have come down to pre-COVID levels everywhere and some destinations even lower. Pipelines are extremely dry. At Sportking, we are prepared to take this advantage of any surge in demand whenever it comes, as we have worked a lot in being more cost efficient in last couple of years.

In particular, Indian spinning mills will definitely benefit the most when the demand comes back, as competing countries are grappling with various challenges like uncontrolled inflation, much higher interest rates, dollar shortages, etc. This fills us with optimism for the quarters ahead, so we are in a good position to cater to the upcoming demand. So I will hand over the call now to Mr. Sandeep Sachdeva, who will take you through the financial performances of the company.

Sandeep Sachdeva:

Thank you Mr. Avasthi for handing over the call to me. Good afternoon everyone. First of all I'm pleased to announce that Sportking India Limited achieved its highest ever revenue compensation of INR628.30 crores, up 13.8% year to year, and 16.6% on quarter to quarter basis. Share of exports to revenue was 52% as compared to 47% in the previous quarter. The gross profits to that INR117.9 crores, up 6.8% on Y-to-Y basis and stable on the quarterly basis.

The EBITDA for the quarter was INR39.6 crores with a EBITDA margins of 6.3%. EBITDA margin declined about 26 bps on Y-to-Y and about 290 bps on Q-to-Q basis. Profit after taxes was INR 15.5 crores with a margin of 2.5%. PAT declined by approximately 14.7% quarterly

basis with exceptional item in Q2 FY23 skewing comparison on Y-to-Y basis. Cash flow from operation gross of tax payment of H1 FY24 was INR20.5 crores. Cash flow from investing activity was minus INR37.5 crores due to the majority of cash was used for capitalization/payments for the purchase of plant and machinery.

Cash flow from financing activity was INR13.9 crores. Major impact due to payment on account of buyback of shares and proceeds from the debt. Debt to equity ratio increased from 0.53 in March 23 to 0.68 in September 23 on account of the higher borrowing but still remain comfortably within our limits. Current ratio remains healthy at 2.6. Thank you all. I now request moderator to open the floor for question and answer sessions.

Moderator: Thank you very much. We will now begin the question and answer session. Our first question is from the line of Jatin Damania from Svan Investment Managers. Please go ahead.

Jatin Damania: Thank you, sir, for an opportunity. Sir, just wanted to understand, sir, you said that on the costing side there is a positive scenario which will help us in the coming quarter, but can you help us in understanding the increase in the new supply of the new crop competing season? How do you see the raw material scenario playing for us and the industry and operating margin trajectory for Sportking?

Munish Avasthi: Hello Jatin ji, thank you for the question. So, the raw material prices of course you know the last four and a half years, they have started the journey from 110,000 per candy to a bottom now, which we feel is very close to the bottom or the bottle, that is INR55,000 INR56,000 per candy. And definitely if we compare it with the world pricings which are hovering around 80 to 83 cents plus the plus the freight to get them here we are pretty competitive and we feel the balance sheet the Indian cotton balance sheet is pretty loose right now we feel there was a good opening stock of cotton to the tune of 45 to 50 lakh bales, which is equivalent to almost 45 days of consumption.

And vis-a-vis last year, which was almost half of it, and the new crops started coming in. Already, we are seeing much more arrivals than, per day arrivals than last year and we expect that the Indian cotton balance sheet will remain to be loose for next six to eight months and we are very positive on that. About the spreads, definitely the spreads have gotten a little better for cotton, 100% cotton yarn lately, but they cannot go substantially higher till we get the sustained demand from at least two to three markets.

So we are just waiting for the markets to, for those markets to show some demand, so some traction. Because right now we are just oscillating between either India is doing well, or China is doing well, or Bangladesh is doing well, but at no point all the three markets are doing well, which are the major consumer of our yarn. So we are cautiously optimistic that this festive season should get some demand and you know hoping for better margins in the coming quarters.

Jatin Damania: So, sir, I appreciate your answer sir but can you help us what was the average spread in the last quarter and the average realization for the yarn?

Munish Avasthi: Yes, the average the average realization in 100% cotton yarn was around INR107 the spread.

- Jatin Damania:** Average spread?
- Munish Avasthi:** The average realization, the average spread was INR106.50 paise to be exact.
- Jatin Damania:** Now since we have already incurred the capex and our capacity is 35% growth year on year. I mean as a company are we initiating any other capex or the capex cycle is almost over for us?
- Munish Avasthi:** No, capex cycle is over for this round. So we are not planning anything in foreseeable future. We are just consolidating and riding through this. Right now we don't have any plans for next, for this year and for the next year also. For next 18 months we don't have anything in plan.
- Jatin Damania:** And sir, last question from my side is one on the power front. Since we are installing 25 megawatt solar power plant, also 2 megawatt is already operational. So can you help us in understanding what is the ballpark saving that we will be doing it, we will be getting it with the commissioning of the entire 25 MW?
- Munish Avasthi:** See, 22 MW is operational, not two. Only three is left. The average saving is around, maybe around 1%. About you can say about 0.5% or more than that, about 17-18 crores to be precise in today's power price.
- Jatin Damania:** INR16 crores, INR17 crores- INR18 crores annually that we will be getting it from the, this year, right?
- Munish Avasthi:** Yes.
- Jatin Damania:** Sure sir. Thank you, sir.
- Munish Avasthi:** Next year, we will get it fully, this year we are getting it partially because there's still a few, did not fully operational. So we're there, about 15% capacity is still left.
- Jatin Damania:** Sure, sir. Thank you, sir, I'll come back in the queue.
- Moderator:** Thank you. Our next question is from the line of Pritesh Chheda from Lucky Investments, please go ahead.
- Pritesh Chheda:** Sir, can you tell us the capacity utilization in the quarter two and the volumes?
- Munish Avasthi:** So the quarter 2 capacity utilization was almost 96%. The volumes in cotton yarn were 12,100 tons and in polyester cotton yarn around 7,000 tons and in total around 20,740 tons as compared to 18,455 tons in last quarter.
- Pritesh Chheda:** Last means quarter, when was last year?
- Munish Avasthi:** This year, Q-on-Q this is a growth of almost about 2,000 metric tons.
- Pritesh Chheda:** So quarter 1 was how much you said, 19,000 tons?
- Munish Avasthi:** 18,455 tons.



- Pritesh Chheda:** Okay and 20740 tons, okay and this capacity utilization that you're calculating is on the 3,78,000 tons, right? The 3,78,000 spindles.
- Munish Avasthi:** So the last 60,000 is a little lower for this quarter. This I'm talking about 3,10,000, we did about 96%. The 63,000, we did around 75% but right now it is working at also at 96%, 97%.
- Pritesh Chheda:** No, I'm just asking this 96% utilization that you calculated, you calculated on what?
- Munish Avasthi:** We calculated it on the...
- Pritesh Chheda:** Pro rata?
- Munish Avasthi:** Other than the one, other than the... we calculated it on 3,20,000 spindles. And the 63,000 spindles which was commissioned in this quarter, last quarter, which was partially left, there the capacity utilization was around 75%- 78%, which is now at full capacity, 96% as well.
- Pritesh Chheda:** Okay, and to one other question, you were mentioning about average spread at 106 per kg. Can you tell us the spread for quarter 1 and also how the cotton yarn price realization has moved in between the two quarters?
- Munish Avasthi:** So last quarter, the spread was around INR 118 and the cotton yarn prices were around, average price for us was INR297 and the average cotton price was around INR178. In this quarter, the cotton fibre prices were almost around INR176 and the cotton yarn prices was INR282. So, the spread has come down by almost INR10.
- Pritesh Chheda:** Okay. Thank you very much, sir. But sir, just one thing, why has the cotton price moved up Q-on-Q, where the bale price actually came down? INR170 and INR176 you mentioned.
- Munish Avasthi:** No, it has come down from INR179 to INR176 because, because in July, August, September, we generally carry the stock from last year, so there's not much fluctuation. The new crop starts coming from mid-September only.
- Pritesh Chheda:** And that crop is at what price?
- Munish Avasthi:** So right now, the price is, the current price is INR152.
- Pritesh Chheda:** INR152?
- Munish Avasthi:** INR154, around INR154.
- Pritesh Chheda:** And has the corresponding yarn price corrected or?
- Munish Avasthi:** Yes, it has corrected but not by that much. So it is around INR270 right now.
- Pritesh Chheda:** Okay. So we'll see basically about INR10 per kg improvement?
- Munish Avasthi:** No, it depends because these are the prices now. They were not what. So going forward, the sales we are making now, there is some improvement, but it might not be in the whole quarter.

- Pritesh Chheda:** Okay. Thank you very much, sir.
- Munish Avasthi:** Okay.
- Moderator:** Thank you. Our next question is from the line of Varun Gajaria from Omkara Capital. Please go ahead.
- Varun Gajaria:** Hi, sir. Thank you for the opportunity, sir. So largely in the industry-wise, we've heard the commentary that things will get better in the second half of the FY '24. So how do you see that panning out? Because it seems like from the commentary you've given, it seems like there is still a lot of demand stuck overall. So how is that going to pan out?
- Munish Avasthi:** So we all have been waiting for things to improve. And -- But we don't see anything substantially concrete right now. As you know, that all the festivals, because the Indian demand actually has been the biggest drag on our bottom line and top line. So as you know that all the festivals have been a little late this year now.
- So we still have our hopes that, the things will start getting better in the next 15 days. There are -- there is slight uptake but it's not very substantial. So we keep our fingers crossed but right now we don't have much visibility of improving demand.
- Varun Gajaria:** Right and the same visibility goes on the export front also, I believe? The inventory wise at apparel?
- Munish Avasthi:** Export markets have been slightly better, not mainly because of increasing demand, but because of, I would say, because of supply issues in some countries, because the spinners in some other countries are hurting even more. So there has been some uptick in demand from Bangladesh because some capacity there was shut down.
- So but we don't see a lot of traction from the retailers, not much visibility. the business climate, the business sentiments continue to be bad because of geopolitical issues and higher interest rates and inflation. So the demand still remains to be a challenge everywhere.
- Varun Gajaria:** Right. Okay. Thank you.
- Moderator:** Thank you. Our next question is from the line of Ankur Dheer from who's an Investor. Please go ahead. Mr. Ankur, your line has been unmuted. Please go ahead with your question. Sir, the line for Mr. Ankur has dropped. May we move to the next question, please. Our next question is from the line of Rahul Jain. Please go ahead, sir. Who is an investor?
- Rahul Jain:** So, I had a question. In the last call you had mentioned, there will be a constant increase in the value-added share in our kitty. So, what steps are we planning to take in this regard?
- Munish Avasthi:** So, we are doing a lot of things on that. So there is, so it takes some time. So we are doing many steps in adding to our value-added kitty. Our portion of our sustainable has slightly gone up. So these endeavors, of course, take a little bit more time than just three months or six months. So we are on to it and we are slowly and steadily working on it.

And there is some, I think, 2%, 3% uptake in our value-added yarns in this quarter and we expect to slowly and steadily take it up.

Rahul Jain: Okay, so my second question is like you have given a list of marquee clients, so are they strictly export facing or do we do supply to these brands locally?

Munish Avasthi: No, we do it. We do supply to them locally as well but mostly in exports.

Rahul Jain: Next, follow-up on that, which local garment brands are major clients in the domestic market?

Munish Avasthi: I think we will keep, we can answer this question privately. So, we would like to keep it, within the company.

Rahul Jain: Okay, not a problem. Thank you.

Moderator: Thank you. Our next question is from the line of Rahil Shah from Crown Capital. Please go ahead.

Rahil Shah: Hello, good afternoon sir. Although, you've been sounding a bit off when it comes to demand, but you're still optimistic about festivities and all, and you don't have much visibility, but can you at least say that you do have visibility about continuing this run rate? Because you've grown more sequentially than you've grown year-on-year in this quarter. And now I understand that things are not looking good, when it comes to demand, but given just the general scenario which you have seen in quarter 2, can it be continued in the remaining quarters in terms of top line and margins?

Munish Avasthi: Yes that's a nice question. So yes, see, top line is something I think we'll be able to manage because being a little bit more cost efficient and price points are a little lower when it comes to deciding whether to operate or not to operate. So we think we are pretty confident of keeping up with the run rate of the quantity produced.

I think it will be slightly higher this quarter than the last quarter because most of the spindles are working at full capacity now. So we are pretty confident on that. But the margins, margins is something which is up in the air right now and we expect to at least maintain what we have given in last quarter and may be slightly go better than that in current scenario.

Rahil Shah: Okay, sounds good. And the second question, so other than waiting for demand to improve and the prices as well, so which would aid margins, other than that what other key strategies you are taking as a company to widen our growth prospects? Any other key developments that you'd like to outline?

Munish Avasthi: Right now, it's more internal looking. So we are looking at where we can cut down on the cost and how we can become more efficient, cost efficient. From marketing point of view, we are trying to explore some more markets, some urban markets which pay you a little more. So this is an ongoing exercise, so this we keep on doing every quarter, every month.

So and the foremost is internal looking right now because of new capacity which has come on board to -- now it's been one year since we have been undergoing these expansions. So now we

are trying to see how we can cut costs and still maintain the same utilization levels. So this is an ongoing exercise. which is, so we are expecting, we expect to cut our costs by at least 100 basis points in the next six months with all the activities we are doing.

Rahil Shah: Okay. And lastly...

Munish Avasthi: And of course, this power, our investments on solar, which I think is also going to pay next year onwards fully to reduce our cost.

Rahil Shah: Okay, perfect. Just lastly, quick one. You said you will be trying for new markets as well. So does this also include the exports? So new regions or anything like that?

Munish Avasthi: Yes, mostly exports. Mostly exports, because domestic we are doing it already, we are almost in country which is geographically advantageous to us. Yes, I was talking about exports mainly.

Rahil Shah: Okay. All right. Looking forward. Thank you and all the best.

Moderator: Thank you. Our next question is from the line of Ankur Dheer, who is an investor. Please go ahead, sir.

Ankur Dheer: Thank you for giving me an opportunity to ask my question. So my question is with respect to the power and fuel expenses, which have been hampering since many quarters. So is there any expectations that from next quarter onwards we will see marginal decrease in the expenses in fuel costs and all?

Munish Avasthi: No, the fuel cost, the expenses have gone up because the capacity has gone up. So our fuel cost remains almost to the same level as it was last year. So the major bump up is only because of the new capacity addition. So there is a very small increase in the price of the power as such.

Ankur Dheer: So do we expect the same kind of expenses could be incurring in the next quarter?

Munish Avasthi: So this quarter the expenses will be, the same or maybe marginally lower because in winter season the power cost from the state electricity board is a little lower. So we expect the same to almost a little lower because the solar generation goes down in these months. So we expect it to be same or a little bit insignificant, by insignificant amount a little lower.

Ankur Dheer: Okay, thank you. And another question is with respect to the meeting which happened recently with Bangladesh counterpart. So is there any activity going on or any kind of what I can say, what I can say, is there any kind of deal is -- which is going on from -- with Bangladesh counterpart with respect to the exports or imports or something like that? Is there any update on this?

Munish Avasthi: No, sir. That was just a courtesy visit and we keep on meeting. It was just in news this time around, but we keep on meeting these people every month or two months. And these are ongoing marketing exercises as we do and nothing to read much about it.

Ankur Dheer: Thank you.

- Moderator:** Thank you. Our next question is from the line of Sahil, who is an individual investor. Please go ahead. Mr. Sahil, your line has been unmuted. Please go ahead with your question.
- Sahil:** Yes, thank you for the opportunity. So yes, I have a couple of questions. The first question being, sir, if you can share the nature of our borrowings, as I can see that it has risen. So please, if you can share the nature of our borrowings?
- Munish Avasthi:** Okay, so there in our results actually, so our long-term borrowings have risen from INR335 crores to INR411 crores and this of course is because of the new expansion coming on board the solar plant as well as the 63,000 spindles. Our short-term debt has bumped up by just INR20 crores in spite of, almost producing 10% more production this quarter. So yes so this is the amount of debt and these are the reasons I gave you.
- Sahil:** Okay, sir. So, and so just a follow-up question to this. So, sir, like what is the timeline that you see for paying this debt down? Like since as you said that no new capex is planned.
- Munish Avasthi:** So, this debt is a long-term debt. So, this debt is we have to pay in seven years. So we intend to pay it in seven years. So that's the plan.
- Sahil:** Okay. Okay. Thank you, sir. Also, sir, if you can share, if you can see like, how do you see like your export contribution pending out in the upcoming quarter?
- Munish Avasthi:** Export contribution, I did not get right, export contribution, so this quarter we exported, the last quarter we exported around 52% out of the share was in exports and we expect this share to remain constant or maybe go a little bit higher in this quarter. Maybe by a couple of percentages.
- Sahil:** So, sorry, more than 50 or less?
- Munish Avasthi:** More than 50, yes. I think it will remain in the ballpark around 50% to 55%.
- Sahil:** Okay, okay, okay, sir. And sir, like just a follow-up question to this as well. As you said that we have seen that readymade garment export declining, but yarn export increasing as per government data. So, like, what do you think that, like a current domestic scenario, what do you think about this?
- Munish Avasthi:** So the export has, of course, risen in last three, four months of yarn, but that was, we are comparing it to a very low base last year, because last year, the export has totally crashed. So this year the exports have done better for last three months and they are more than what is the average needed to balance the domestic supply. The so exports have done good for last three or four months, but domestic demand of course has not been much evident in the last three months.
- But as I said in my opening commentary that, we expect this festive season to kick this demand cycle up to see and then I hope after Diwali we will see some demand coming, domestic demand also coming.
- Sahil:** Got it, got it. Thank you, sir. Thank you for the perspective.



Moderator: Thank you. Ladies and gentlemen, that was the last question of our question-and-answer session. As there are no further questions, I would now like to end the conference over to Munish Avasthi for closing comments.

Munish Avasthi: Thank you, Devansh. I would like to thank the participants for taking out the time to join us for this one. We look forward to having continuous engagement with all the market participants. And I wish you all, all of you a very happy Diwali and a new year as we will be talking in the next year now. For any other queries, be free to contact with Orient Capital our Investment Relations Advisors. Thank you.

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