RSWM Limited
an LNJ Bhilwara Group Company

BHILWARA GROUP LNJ
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RSWM/SECTT/2023
16th November 2023

BSE Limited Corporate Relationship Department, 1st Floor, New Trading Ring, Rotunda Building, P.J. Towers, Dalal Street, Mumbai - 400 001. **Scrip Code: 500350**	**National Stock Exchange of India Limited** Listing Department, Exchange Plaza, C-1, Block - G, Bandra-Kurla Complex, Bandra (East), Mumbai - 400 051. **Scrip Code: RSWM**
CIN: L17115RJ1960PLC008216	

Subject: Transcript of Earnings Conference Call held on Thursday, 9th November 2023.

Dear Sirs,

Please refer to our Earnings Conference Call scheduled for Thursday, 9th November 2023 at 07:00 PM (IST), as intimated vide our letter dated 03/11/2023.

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of the said Q2 & H1 FY24 Earnings Conference Call. The said transcript is also available on the website of the Company.

You are requested to take the same on record.

Thanking you.

Yours faithfully,
For RSWM LIMITED

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RSWM Limited
Q2 & H1 FY24 Earnings Conference Call Transcript
9th November 2023

MANAGEMENT:

Mr. Avinash Bhargava: Chief Financial Officer

Mr. Surender Gupta: VP - Legal and Company Secretary

CIN: L17115RJ1960PLC008216 / Registered Office: Kharigram, P.B No.28, P.O. Gulabpura- 311 021, Dist. Bhilwara, Rajasthan.

Moderator: Ladies and gentlemen, good day and welcome to the RSWM Limited Q2 and H1 FY24 Earnings Conference Call.

We have with us today from the management, Mr. Avinash Bhargava, Chief Financial Officer and Mr. Surendra Gupta, VP - Legal and Company Secretary.

As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touch tone phone. Before we proceed with this call, I would like to take this opportunity to remind everyone about the disclaimer related to this conference call. Today's discussion may be forward-looking in nature based on management's current beliefs and expectations. It must be viewed in conjunction with the risks that our business faces. That could cause our future results, performance or achievements to differ significantly from what may be expressed or implied by such forward-looking statements.

I now hand the conference over to Mr. Avinash Bhargava for opening remarks. Thank you and over to you Sir.

Avinash Bhargava: Thank you so much. Good evening, everyone. Thank you for joining this call today. We have released the results today. And I'm sure you have had a chance to review.

Coming to our business performance in domestic and international market. We continue to face the challenges in our business especially in the spinning side. The demand for yarn has seen some improvement compared to 2-3 quarters back but we are not back to pre-pandemic levels yet. While spinning operations are running at full capacity, low demand and surplus of yarn in the market impact our margins. In past nine months, we discussed various issues related to excess stock, brand delaying orders and lower demand globally, however, we see some green shoots in demand recovery from some brands are now slowly destocking and resuming their normal buying patterns. They are gradually increasing their purchase which is a positive sign. However, overall demand is still not where it was used to be.

Several factors are affecting the textile industry in last nine months, such as higher interest rates, increased gas prices due to geopolitical issues and elevated food inflation. These factors are impacting the discretionary demand as consumers are cautious. Apparel imports in August'23, experienced a notable decline across lesser markets. In United States imports amounted to around US$ 7.8 billion marking a 25% decrease, from August 2022. The European Union witnessed a downturn in imports totaling to US$ 8.2 billion down by 23% compared to August'22. The United Kingdom recorded apparel imports of US$ 1.8 billion reflecting a 10% decrease from August 22. Japan reported April imports of US$ 2.4 billion showing a 14% decrease from the same period in 2022.

Some signs of recovery were seen in September, as United States, apparel store sale for September 23 are projected to be 10% higher than September 2022. However, home furnishing store sales during the same period are anticipated to decline by 13%. Additionally, the Consumer Confidence Index saw a decrease from 107.8 in September 2022 to 103.0 in September 2023. In the United Kingdom, apparel stores sales from September 2023 reached USD 4.3 billion marking a 2% increase compared to September 2022.

In terms of exports, India's, spinning industry had seen a significant drop. But it has now recovered to pre pandemic levels. However, local consumption, particularly among knitters, denim manufacturers, weavers and garment producers is lower, leading to depressed yarn demand with additional economic issues in countries such as Turkey and Egypt adding complexity. Turkey is contending with currency devaluation. While Egypt is grappling with challenges related to availability of USD. Notably, Turkey has imposed an extra 5% duty on imports.

In response to these conditions, our strategic approach to exports has become more discerning. We are selectively accepting orders, particularly avoiding those with significantly negative net promoter scores. (NPS). Consequently, our export volumes have been constrained to around 2,000 metric tons in noticeable reduction from usual 3,000 metric tons.

Although there is noticeable movement in the 100% cotton market, in regions like Bangladesh the price points for PC yarns remains unfeasible. The market is currently experiencing an oversupply of affordably priced and high quality cotton yarn. Exporting commodity yarn is proving to be a challenge as our pricing struggles to compete with counterparts from other origins such as Indonesia and Vietnam. These market dynamics necessitate a cautious and strategic approach to navigate the complexities of current export landscape.

On the cotton front, the situation has been quite dynamic. Initial estimates of the cotton crop size were lower than expected and this created concerns about cotton availability. However, the crop size eventually reached around 295.10 lakhs bales, which is lowest in the 15 years due to unfavorable weather conditions, potentially reducing the crop size.

Regarding denim, in the second quarter, the industry saw a continued decline and things got even tougher in July and August 2023, however, we managed to perform relatively well compared to others in the same business. Despite low sales, our distribution partners have accumulated in large inventory because their business has closed down by almost 40%. The unorganized market also faced challenges as everyone was operating at reduced capacity due to sluggish retail activity and cautious behavior from both dealers and brands. We at LNJ, have maintained our sale volume through strong sales strategy, partnership with our customers and product innovations.

Domestic brands are also grappling with excessive inventories, which are making them take a cautious approach due to the slow retail market. They have placed smaller orders for the next season and the volumes are much lower compared to previous seasons, it’s like they are adjusting their existing inventory due to pricing pressures, brands are turning to tier 2 mills that offer lower prices. Payment delays are another concern in the secondary market, with the average payment period stretching to around 180 days for our dealers. However, we have managed to set our own terms and kept payment delay in check. With only a few exceptions we are able to collect more than Rs. 197 crore in Q2 against sales of Rs. 194 crores. The aging of overdue payments remained under control with only 6.22% outstanding for more than 90 days.

Coming lastly to knits: The current state of market, is marked by some uncertainty with yarn prices fluctuating on daily basis. However, it's worth noting that the domestic market remains robust and Indian brands are showing strong demand by placing orders with strict delivery schedules. Buyers are now paying close attention to timely deliveries and are enforcing penalties for any delays. As a result, lead times are progressively getting shorter as brands opt for just-in-time production to minimize inventory buildup. Challenges persist in both the knitting and dyeing processes for Poly filament based fabric qualities. To address these issues, we have made strategic acquisitions of imported poly filament- yarns and a specially developed poly filament yarn known as “ALICE” from Reliance, designed to mitigate the BARRE effect.

Our team is diligently working on sampling and quality checks, and we've taken the proactive step of engaging machine technicians to ensure precise settings. We're pleased to share that we've secured nominations from prominent brands like BENETTON and PUMA, and we're actively pursuing a nomination from ADDIDAS. In the case of BENETTON, we've already begun receiving regular monthly orders ranging from 25 to 30 metric tons through their vendors. With PUMA, they've placed a significant order of 10 metric tons in their standard quality, channeled through their vendor, and we are in the process of obtaining approval after submitting samples that utilize imported filament.

To conclude, overall market scenario: International brands have concerns about inflation, the fear of recession and inventory levels. While the first two concerns persist, inventory levels have largely normalized across the supply chain, boosting demand. We are witnessing increasing demand from the US, UK, Europe and Japan. The Indian retail market is also expected to pick up as the festive and marriage season, which was delayed, has now begun. Many brands are adopting a China plus one strategy due to concerns about sourcing from China and India is benefiting from this shift. Additionally, sustainability products practices are in focus and we at RSWM are ready with given capabilities it gives natural advantage.

We anticipate that Q3 will show further improvement in capacity utilization compared to Q2 and H2 is expected to be better than H1, especially in the international markets. Sequentially, we anticipate posting better numbers in upcoming quarters.

Coming to financial: for the September quarter, RSWM reported total sales of Rs. 1,007 crore up quarter-on-quarter basis. Net loss for the period is stood at Rs. 15 crores from Rs. 17 crore last quarter. As last year's financial year 23 was an exceptional year in the history of textile industry, post that we faced lot of challenges which we have discussed earlier. So, it's better to look at our performance Q-o-Q basis. Basically, to get clear picture on how we are navigating and overcoming challenges. Our company's current debt to equity level is 0.5x after the rights issue declared last year. We used to strengthen our balance sheet. Our cash and bank balance stands at Rs. 11 crores. Our expansion plans, we are very selective and at the right time and value we will take necessary steps which will help the company in long run. So, we will be very selective about making those decisions.

Our resolve remains steadfast as we pursue our enduring objectives, which encompasses expanding our product range improving our financial stability and discovering more efficient methods to enhance our earnings. We appreciate the dedication and hard work of our team and believe that our positive outlook and commitment will lead to even greater success in the future. We will keep working hard and aiming for the best as we pursue our goals together, we are also thankful to our shareholders for their continued support and commitment to our shared vision. With this, I would like to open floor for question and answers. Thank you so much.

Moderator: Thank you very much. We will now begin the question-and-answer session. Our first question is from the line of Abhijit Waghmare from Value Growth Advisors. Please go ahead.

Abhijit Waghmare: Hello Sir. Congratulations on the good numbers. Sir, I have few questions. First question is on Opportunities that opened for us in view of Australia and UK FTA's essentially so any thoughts on that?

Avinash Bhargava: The Government of India has completed 13 FTA and recent FTA with UK is going to benefit India as far as textile is concerned.

Abhijit Waghmare: So, we're looking at the current scenario of challenges, what are management thoughts for next three to four quarters and how we can manage to bring growth in the company.

Avinash Bhargava: What we feel that textile sector will grow exponentially in the second-half of FY24. Trends will be driven by changing consumer preferences, government initiatives, technological advancements and global trends increased export opportunities because of Make in India and Atmanirbhar Bharat will also give a boost to rising demand for sustainable textile, because everybody is asking for sustainable textile like cotton, linen and fabric manufactured from recycling polyester staple fiber. Digital transformation is coming and there are conversion happening and results are seen via e-commerce boom supported by government. Largely focus on value added products by RSWM will certainly lead to a good growth in H2FY24.

Abhijit Waghmare: Understood, Sir. What is the current situation of Knits and how are the order inflows and how are we planning to scale up?

Avinash Bhargava: Our production capacity is around 85% utilized and we have already communicated that there are good orders inflow from Benetton, Puma and Adidas.

Abhijit Waghmare: And how are we planning to scale up?

Avinash Bhargava: How we are trying to scale up in terms of top line or bottom line?

Abhijit Waghmare: In terms of order inflow?

Avinash Bhargava: We are pushing towards export orders, which is not happening because of Egypt and Turkey issues and secondly war between Israel and Hamas. We are pushing towards export orders from overseas countries and for that we are strengthening our export team.

Abhijit Waghmare: And what is the current CapEx requirement for FY24?

Avinash Bhargava: As such, there are no projects in pipeline. We have deferred for some time, except these modernization CapEx which we need on a case-to-case basis or plant to plant basis.

Moderator: Thank you. Our next question is from the line of Saket Kapoor from Kapoor and Co. Please go ahead.

Saket: Thank you for your very detailed introduction. It gives us an understanding of the current scenario; business trend and lot of aspects are in a very detailed fashion. So please continue with this exercise and we have observed this in the LNJ group itself and in HEG. Also, we find the same about the sector and all so thank you firstly for that. So, if you could give us some color on how our profitability is going to shape up this now, we are in the month of November. So how the first month of this quarter being and how are the orders in the deliverables currently for Q3 and onwards, what is the visibility? As you have already mentioned that plants are running at highest utilization levels, but the margins have been squeezed. So, if you could give some more color that would suffice.

Avinash Bhargava: So frankly speaking October month is not very good. But we expect good orders or good dispatches in the month of November and December because of festive season and the winter season.

Saket: But as you were mentioning the utilization levels are higher and the demand is there?

Avinash Bhargava: Utilization of the plant is at optimum level. But as we have already mentioned that there is a 33% downfall from 3,000 metric ton to 2,000 metric tons in Export, down by 33% in case of RSWM and it is not happening only with RSWM, it is happening with everyone.

Saket: For the first half, what is our export number out of the total sale? What is the export mix? And enter going forward for the export order booking what is the visibility there also?

Avinash Bhargava: Export order booking for Q4FY24 should be good. But as far as Q3FY24 is concerned it will be more or less same as it was in Q2FY24.

Saket: And what number if you have?

Avinash Bhargava: I will give you a break up of this export in Q1 and Q2.

Saket: Yes, please. And also, you provide me with the debt number and what is our current net debt number and the cost of funds?

Avinash Bhargava: Net cost of borrowing is somewhere around 7% after taking into these Government incentives.

Saket: Sir, I was seeking an answer for the government incentives. They are realizable through the RoDTEP route.

Avinash Bhargava: Government incentive, I mean to say interest subsidy by state government

Saket: So that is lying receivable in our account or they charge at lower rate. So, there is no receivable as such.

Avinash Bhargava: The amount which was receivable from government has been realized for the period up to 30th June 23 so there is no outstanding.

Saket: And the net debt number in absolute numbers?

Avinash Bhargava: Whatever eligible claim was there it has been realized for the period till 30th of June 23.

Saket: And the net debt number, Sir?

Avinash Bhargava: Net debt number is somewhere around Rs 600 crore.

Saket: And for the next half of what is the current maturity of amount payable?

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Avinash Bhargava: Next year, it will be around Rs 100 crore.

Saket: Rs 100 crore is payable next year. And for the next half, or for the financial year 31st March 24. So how much is the receivable? What is our current maturity payable?

Avinash Bhargava: I can share nearby repayable amount which it is Rs 100 crore. I mean to say for next 12 months. The entire data for next 2-3 years maturity but it makes no sense we can share current maturity only

Moderator: Thank you. Our next question is from the line of Nitin Gandhi from Inquest. Please go ahead.

Nitin: Thanks for taking my question. Can you say some thoughts on margin specifically, because if the utilization still remains at 85% for next half, where do we see margin leading too? Is there any scope of improvement?

Avinash Bhargava: We can take the example of contribution of yarn prices, whatever you like.

Nitin: As you please, Sir.

Avinash Bhargava: So, I will take yarn prices. For 130 cotton yarn and 230 PV yarn right. So, in case of 130 cotton yarn the price in June 22 it was Rs. 360 per kg and it is reducing continuously. Yarn price as of now is around 250 per kg and 130 cotton. And if we will go for 230 PV yarn it was Rs. 233 per kg in June 22, which is now around Rs. 190 per kg. So, there is price realization of yarn at 130 cotton yarn or 230 PV yarn is continuously reducing. There is some slight improvement in the month of October, but we have to witness for October, November and December. And if we will go for contribution at 130 cotton yarn. Yes, it has been improved from June 22 to October 23 or September 23. In June 22, 130 cotton the contribution was negative by around Rs. 15 which is improved in September 23 to Rs. 36 per kg and in October again it has reduced to Rs. 28 per kg. If we will go for 230 PV yarn the contribution was positive in June 22 at Rs. 78 which is now Rs. 57 in October 23. If we will see all figures together there is an improvement in 130 cotton yarns. As far as contribution is concerned, but as far as 230 PV yarn is concerned there is deterioration in contribution Rs. 20 from Rs. 78 to Rs. 57 it is Rs. 21.

Moderator: Thank you. Next question is from the line of Navneet Paya an individual investor. Please go ahead.

Navneet: Sir, I just wanted to know your utilization, is it 85% across all the three segments, fabric, denim, Knits as well as yarn or is it different across the segments?

Avinash Bhargava: No, I have explained this 85% for Knits only. Other plants utilization is 100%.

Navneet: It's 100% so yarn and denim is at 100%.

Avinash Bhargava: These are working at their optimum capacity.

Navneet: All right. this include your newly commissioned capacity in cotton yarn which got commissioned in September?

Avinash Bhargava: Yes, this newly commissioned this 52,000 spindles Kaapas has been started in 25th September only and it is being used at its full capacity.

Navneet: So, yarn including that you are at full capacity 100%.

Avinash Bhargava: Mr. Saket, are you there? I'm just communicating this export and domestic break-up. Total turnover is Rs 1,908 for H1FY23-24 out of Rs. 500 crore is export and rest Rs. 1,402 crore is domestic. This is the breakup of export and domestic both. Mr. Saket, you had inquired about total revenue of export and domestic?

Saket: And Sir, when we look at H2 in terms of the order booking for export, how are the export shaping up do we have visibility for our quarters in terms of our export revenue and also in terms of margin, how are the EBITDA margins for the export segment? What are our EBITDA margins?

Avinash Bhargava: EBITDA margin for export is not working well as of now. If we compare the EBITDA margin for domestic and export in domestic market, the EBITDA margin are better.

Saket: Then can you provide the comparison?

Avinash Bhargava: But no one can say that when order booking for Christmas and all will be there it will be better.

Saket: In percentage terms, can you differentiate what is the percentage for export and for domestic?

Avinash Bhargava: No. Right now, I don't have that data.

Saket: Sir, as our earlier participant was mentioning about the new capacity, is this any differentiating capacity in terms of as it is mentioned that the 52,000 spindle at Lodha, Banswara has commenced, so it doesn't have any differentiating factor in terms of the any value-added yarn or how is it different from our existing capacity. As you have mentioned that this is the premium product, so in any higher margins of value at when pricing it had differentiating pricing than the existing yarn.

Avinash Bhargava: Yes, this has been branded as Kaapas and the quality of this yarn, we are getting higher prices than the normal, yarn, these are being produced by other competitors. We are getting better price.

Saket: Sir, when you are mentioning that our plants are running at optimum level and for production side, we are at full that means there is no problem with consumption. It is only the pricing part

Avinash Bhargava: We are not getting the value addition because of sluggish demand in the market or you can say the cost is not being transferred or we are not able to transfer the cost to the consumer. If you will see that our business is B2B not B2C and the manufacturers, which are having the B2C sales, they are getting good profits. But since we are at B2B, we are not able to transfer the prices to the market, because after this reduction in raw material cost and all they are asking for reduction in prices whereas in case of B2C they have not reduced the prices. And we have to reduce the prices in the current scenario.

Saket: So, can you throw some more light on how the raw material price trends have been and for the raw material basket cell, the cost of material consumed stands at Rs 582 crore for the quarter. So, what are the key components, cotton percentage and any other component also?

Avinash Bhargava: Our ratio is 60-40, 60% is PV yarn and 40% is cotton yarn. If you have asked about fiber prices trend the PFS price more or less same from September 22 to September 23. and if we will go by PSF prices it was Rs. 185 a kg in the month of September 22, which is currently at Rs. 156 per kg. And if you will take cotton for September 22, the prices of cotton were Rs. 282 per kg, which is now Rs. 176 per kg. And the per candy price it was running around Rs 80,000 to Rs 85,000 per candy in September 22 and now it has reduced to around Rs 56,000-Rs 57,000 per candy.

Saket: And Sir, what are the likely trend for the availability of the cotton crop and the price trends going ahead? What is the understanding?

Avinash Bhargava: My understanding for that is whatever size was used in case of cotton, it has been reduced. Now after November it should go up.

Saket: It is in terms of the inventory that you are coming to a conclusion that lower inventory.

Avinash Bhargava: No, no I'm talking about prices of cotton per candy or per kg whatever. It will go up.

Saket: OK. What factors and will enable the prices to go up?

Avinash Bhargava: I feel that the government will try not to let it go below the MSP. That's the only reason. And that it's my own perception, no one can anticipate about cotton. Cotton behavior in last year you have seen and where it is now.

Saket: Correct Sir. And lastly on the power and fuel front side, if you could comment that how are these variables behaving? And that the trends here, because I think the line item has remained on the higher side only. So how will this line item behave going ahead and what steps are we taking to improve the power and fuel cost impact on our P&L?

Avinash Bhargava: You know that power is not in our control because we have to be dependent on either on DISCOMS or the state electricity board, solar or thermal plants. The cost of coal prices or regulatory conditions are not allowing us to run these plans on coal based thermal power plants, cost wise per unit cost in case of thermal is very high. And power cuts in Rajasthan is frequent. So, power cost is not in our control and it is also a reason because of that power cost increase. Power cost is around 12%. If you will analyze the cost structure, the material cost remains to be around 64% and the manpower cost power and fuel both are around 12% and again other expenses are around 10%. So, power cost is not in our control.

Moderator: Thank you, Sir. Ladies and gentlemen, that was the last question of our question-and-answer session. I now hand the conference over to the management for closing comments.

Avinash Bhargava: Thank you everyone for joining the call today. We continue to navigate ourselves from headwinds of domestic and international economic condition. The outlook for long term will remain intact. Giving us the high visibility for growth, I would like to take this opportunity to wish you all a Happy Diwali and Prosperous New Year. We look forward to interacting once again next quarter. Thank you so much.

Moderator: Thank you. On behalf of RSWM Limited, we would like to formally conclude this Q2 and H1FY24 earnings conference call. We extend our warm wishes for a very joyful Diwali and a prosperous new year. We sincerely appreciate your participation in this event and we kindly request that you now disconnect your lines. Thank you for your time and engagement.

(This document has been edited for readability purposes.)

For further queries: Email: cfo.rswm@lnjbhilwara.com

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