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BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street, Mumbai – 400 001 (Maharashtra)
Scrip Code: 503722

National Stock Exchange of India Ltd
Exchange Plaza Bandra–Kurla,
Bandra (East), Mumbai–400051 (Maharashtra)
Symbol :BANSWRAS

Sub: Transcript of Q2 & FY 25 Earnings Call held on 7th November, 2024.

Dear Sir/Madam,

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we are enclosing herewith a transcript of the **Q2 & FY25** Earnings Call held on Thursday, 7th November, 2024. The same is also available on the website of the Company i.e. https://www.banswarasyntex.com/transcript-of-earning-conference-call/

Please take the same on record.

Thanking You,

Yours truly,
For **Banswara Syntex Limited**

Ketan Kumar Dave
Digitally signed by Ketan Kumar Dave
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Ketan Kumar Dave
Company Secretary and Compliance Officer

Enclosure.: as above

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"Banswara Syntex Limited Q2 & H1 FY-25 Earnings Conference Call"

November 07, 2024

E&OE: This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchanges on 7th November 2024, will prevail.

MANAGEMENT: MR. RAVINDRA TOSHNIWAL – MANAGING DIRECTOR, BANSWARA SYNTEX LIMITED.
MS. KAVITA GANDHI – CHIEF FINANCIAL OFFICER, BANSWARA SYNTEX LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to Q2 & H1 FY25 Earnings Conference Call of Banswara Syntex Limited.

This call may contain forward-looking statements about the company which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not a guarantee of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in listen-only mode 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 "*" and then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Ravindra Toshniwal – Managing Director from Banswara Syntex Limited. Thank you, and over to you, sir.

Ravindra Toshniwal: Thank you. Good afternoon, everyone. I welcome you all to our Quarter 2 and H1 FY25 Earnings Conference Call. Along with me, we have on the call our CFO – Kavita Gandhi, and SGA, our Investor Relations Advisors.

I hope all of you have had the chance to go through our "Investor Presentation" uploaded on the exchange and on our company website.

So, let me start with the industry landscape before moving on to our financial performance:

The global inventory destocking cycle has now concluded, with retailers now maintaining a more optimized stock level, we expect, therefore, that there will be less volatility going forward in the position of orders. In their recent Earnings Calls, major global retailers have reported reduced inventory supported by improved demand, and notably, apparel exports have grown by approximately 12% year-on-year in August. This despite the ongoing Red Sea crisis and the elevated logistics costs. India's market share in the US and the European Union has shown consistent growth, rising from 5% in 2019 to 7% in 2024. While its share in the UK remains stable at 4%.

Meanwhile, China has been gradually losing market share globally, partly due to the rising labor costs and the shift towards the China plus one strategy. With a vast local addressable market, strong execution capabilities and the anticipated free trade agreements, India's textile sector is well positioned for growth.

Now, let me take you through our financial performance for the 2nd Quarter and the first half of the fiscal FY25:

Our total income in the 2nd Quarter increased by 8.4% to 345.2 crores in Quarter 2, compared to FY24 on a year-on-year basis. For H1 FY25 the total income for the half year was 613.6 crores, which is almost the same as the same period last year.

Our gross margins are continuously maintained in the range of 50% to 60% for both half year and recent quarters. The EBITDA stood at Rs.28.5 crores, and Rs.49.3 crores during Quarter 2, FY25 and half year FY25 respectively. Profit before depreciation and tax came in at Rs.19.1 crores for the Quarter 2 FY25 and for H1 FY25 it stood at Rs.31.8 crores. We reported a profit after tax of Rs.5.1 crore for the current Quarter 2 FY25 and Rs.6.1 crore for the half year FY25. Looking ahead, the industry outlook is improving, and Quarter 2 has already shown promising signs of recovery.

Now explaining our individual business divisions, which are three, and we start with the yarn division. The yarn division revenue witnessed a 5% decline in Quarter 2as compared to the last quarter, and as compared to the last financial year, it declined by 23%. In the half year FY25, there's a decline in 15.5% in revenue, in the yarn division as compared to the same period last year. The capacity utilization in the yarn division stood at about 88% for Quarter 2 FY25. We attribute this decline to the pricing pressure and a subdued demand for yarn. We are continuing to focus on high value yarn products that will lead to better value and utilization.

The fabric division, this was the out performer, and in Quarter 2 FY25 the fabric division saw a revenue growth of 24.4% as compared with Quarter 2 FY24 and 16.7% as compared with the last quarter. And it reached a revenue of 132 crore in the last quarter in fabric. In H1 FY25 there was a growth of 17.1% in the fabric business, as compared to H1 FY24. This growth we attribute to an improved traction in the domestic and international market for the fabric business, including the UK and the EU regions. The capacity utilization also improved and stood at 78% slightly up from the last quarter. The brand business in our fabric of Simone Frederico & Figli has received a favorable response, and we are optimistic about its growth potential in the future. Additionally, we have started supplying this brand's products across India through our channel partners. Quarter 2 shows a better trend, and we expect that this trend will continue in quarter three and quarter four.

Now talking about our garment business: For Quarter 2 FY25 revenue from the garment division was up by 9.4% year-on-year and 55.6% on quarter-on-quarter basis, to Rs.83 crore. Talking about the H1 FY25 garment division saw a marginal decline, or almost flat, as compared to last year at Rs.137 crores. There is a good demand revival for garment business from the Asian markets such as Hong Kong, South Korea, Australia, that are growing for us as new geographies. The capacity utilization in the garment vertical stood at 48% for Quarter 2 FY25.

In conclusion:

The revenue, although was slightly subdued in the garment division, but there has been growth in fabric and garment while the yarn business was primarily affected by the overall slowdown in quarter one and the ongoing price pressures across the market. However, as we mentioned earlier, the outlook for the second half of FY25 appears more encouraging, with early signs already evident in Quarter 2, supported by demand from both domestic and export markets.

I would, with this, like to open the floor for questions. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Karan Mehra from Mehta Investment. Please go ahead.

Karan Mehra: Sir a couple of questions. What opportunity do we foresee in the second half of the fiscal in domestic as well as export market now with most US retailers have completed the de-stocking. So, how do we expect demand to trend in that market?

Ravindra Toshniwal: Right, thank you. Karan. So, we are seeing that we had a first half in which there was subdued demand, and now with the inventory levels of all customers coming to normal, there is an increased order book position that we have both in the domestic and export markets for both fabric and garments. Now, yarn being a commodity business, we don't have an order book position or a visibility beyond 30 days. Since we are seeing such good traction in the fabric business, we have a good sense that this will follow in the yarn as well as in garments you will see a good traction. So, we can expect at least to have similar revenue as what we got in Quarter 2 if not better in quarter three and quarter four in our total orders. And we expect that with stability now in the US, with the new election of Trump, there will be also a position where the tariff difference between what is imposed on China and what is imposed on India will give us more preferential access to the US market. So, we are hoping that that will result in reviving the trade with the US significantly.

Karan Mehra: Understood and sir any views on the demand from Europe and UK markets?

Ravindra Toshniwal: Europe and UK remain very good in demand for us. In fact, the demand had shrunk more from the US market than anywhere else, and this was likely also because of the election year where a lot of the demand for tailored clothing had dropped and it had moved more to election related, apparels, T-shirts, promotional items and things like that. So, since that election year has passed now we expect the demand for our kind of goods which we are selling in the US to come back strongly. And we are seeing this happening even with the uniform business with Cintas who is a global sourcing company for on the Fortune 500 companies for uniforms within the US, and our business with them is growing very consistently.

Moderator: Thank you very much. The next question is from the line of Tanya Desai from Elevate Research. Please go ahead.

Tanya Desai: I have a couple of questions. My first question was related to the inventory. So, inventory levels have continued to rise compared to March 24 figures, when do we anticipate these levels returning to normal, and what factors might influence the timeline?

Ravindra Toshniwal: Right. So, yes, our inventories have risen by about, 50 crores plus. And here we are seeing there is an inventory rise of about 15 crores in fiber, which is primarily because fiber prices were going up and we did stock a little extra. The increase in the yarn inventory and fabric inventory, as well as some garment inventory, is due to the slower lifting of customers of the finished goods, which are all confirmed orders and will go out within quarter three itself. So, by the end of quarter three we should return back to normal inventory levels.

Tanya Desai: Okay, sir got it. Also, could you provide some insight into our yarn production, specifically out of the total yarn produced, what portion is consumed internally and how much is for externally, if any details on this breakdown would be really helpful.

Ravindra Toshniwal: Yes, so we are consuming about 20% of our yarn production internally, and if you compare FY24 versus FY25 the internal consumption of yarn has not increased. However, our turnover of the fabric business has increased, so our sourcing of the yarns from outside has actually increased in the fabric business. We are sourcing more value added yarns, like worsted yarns, as well as imports. So, this will help the overall turnover of our company, as well as whatever capacity is available now with the yarn department, can be used to increase sales. The challenge has been the market has not responded as well as we would have expected it to however, seeing what the green shoots are showing now, once this happens the capacity is available and the turnover in yarn can also increase substantially.

Moderator: Thank you very much. The next question is from the line of Ravi Shah from Opal Securities. Please go ahead.

Ravi Shah: So, basically, my first question will be on the utilization of our term loan. So, how do we plan to use these funds, and are we going to see an uptick in borrowings for the next quarter or the coming quarters?

Ravindra Toshniwal: Right. So, we have invested, about 90 crores and this has been done to up skill and modernize our entire spinning part, as well as the finishing equipment and even garmenting in different areas we have invested. So, this is going to help us to both make products where our margin should be increased as well as reduce the total number of employees we use in terms of automation. So, the effort of all the modernization is to increase the productivity per employee and to increase the value added per kilogram or per meter. This is where the investments are going, it is not a CAPEX which will increase the overall capacity that we have, because we have junked old capacity and replaced it with new modern equipment.

Ravi Shah: Understood sir. And sir the next quarter will we see a quarter rise in borrowings?

Ravindra Toshniwal: Yes, marginally, not very much, do you have an idea Kavita, exactly what we are planning?

Kavita Gandhi: We will be having additional term loan, not a working capital. Working capital should come down over a quarter. But yes, the long term will be having a slight increase, because we are yet not finished with our entire modernization process, and that will take at least 12 months to complete the entire thing, and at the same time, we are also making our infrastructure more cleaner, compliant, and decongesting our entire mill, because you can understand that over a 50 years of mill now you need that kind of an refurbishing and the realignment. So, to that extent yes, there will be an increase in the next two or three quarters, but it's all a planned CAPEX.

Ravi Shah: Understood ma'am. The next question would be, in light of the ongoing internal issues within Bangladesh, have we seen any notable shift in demand towards our garmenting business. Has there been uptick in any orders from our customers because of this turmoil there?

Ravindra Toshniwal: So, our order book position for the first half year in the garment business was quite low, and utilization was only 48%. Now we are seeing in quarter three and quarter four, the order book position is actually very good, and we are in fact right now facing a situation of not having enough labor to be able to handle all the orders that we have. So, yes, we do see a positive trend going forward and partly it may be due to the Bangladesh reason, but I am not sure it's alone that, there can be many reasons why the demand is shifting to India, and this we see as a trend which will continue.

Ravi Shah: Understood. So, a follow up on that will be, are there any specific product line or customer segments where the impact is more pronounced because of this?

Ravindra Toshniwal: So, where people look at core articles, where they have repeat business, rather than fashion, we are seeing a lot of that coming towards us. So, these are kind of orders which are really basic articles in uniforms or in standard corporate wear or suits that are sold in various kind of like standard pricing. So, this movement of core articles towards India is a good sign. It is not that they are coming to India for only specialties. They are actually wanting to move out the bulk of their production now to India, this I think is a healthy trend.

Ravi Shah: Understood sir. And sir my last question would be during our Q1 call, you had mentioned that the distribution channels are in partnerships for our brand is Simone Frederico & Figli were fully established. So, how is the network performing currently, any updates on that?

Ravindra Toshniwal: So, I do have to share that the retail part of the business on fabrics over the counter in this Diwali season and prior to this Diwali season has been bad. So, the results of Raymond's has also come out, and it has been significantly reduced retail sales in the over the counter segment. However, we have still done quite well, we had bookings of about 18 crores. We have already made dispatches of about 6 crores. We have about 12 big wholesalers whom we have appointed across different regions of the country. And each of them have about 100 different retailers that they reach out to. So, we are almost now at about 1200 locations. And goods are getting sent to these 1200 locations. We estimate the size of this market to be about 5000 crores now, and out of that, we have targeted for the first year to try and get 25 crores.

Moderator: Thank you very much. The next question is from the line of Atul Daga from Daga Securities. Please go ahead.

Atul Daga: Sir just a couple of questions, in terms of yarn pricing when do we anticipate some relief from the current pricing pressures within the spinning industry, and are there any particular trends or market factors that could drive a softening in prices?

Ravindra Toshniwal: Yes, it's a very difficult question and a good question Atul, because we really don't know what and when this cycle of yarn prices will change. At the moment, the overall demand for the total fabric business and the total garments that go out of the country has to increase for this yarn price to go up. Right now we are expecting that all of the policies that the government has taken to restrict some of the imports coming in from China should begin to help, some of the QCOs and other strategies that the government has implemented because, there is a lack of demand there is a challenge from China, and a lot of goods do come into the country, and this causes pressure on the yarn. So, we have to wait and see what happens, our business for our turnover, our business of the yarn is roughly about 30% of our total turnover. However, we see that the pricing on the yarn, even though is right now under pressure the fabric margins and garment margins are not under pressure to that extent.

Atul Daga: Got it. Sir, also one more question is like, could you give us an update on our technical textile joint venture with Tesca, we would really appreciate details on its performance over the recent quarters?

Ravindra Toshniwal: Sure. I will ask Kavita to answer that.

Kavita Gandhi: Atul, so on a technical textile joint venture in this particular first half, they have done the revenue of 40 crore, and their PAT is 2.5 crore. So, they are doing steadily well, not yet in a very high growth yet over there also has come as an automobile industry, we all know but it's a steady state kind of progress right now.

Moderator: Thank you very much. The next question is from the line of Yash Agarwal from Capital Square. Please go ahead.

Yash Agarwal: Just a couple of questions. As you know Indian textile sector has seen a significant advancement in automation and digitalization. So, my question is, can you provide some insight into how our company is going to leveraging the new technology to improve productivity and reducing cost?

Ravindra Toshniwal: Yes, that's a good question Yash, because this is why we are actually making all of the investments that we have made and we are making sure that these investments will cause our total labor to be used, our productivity per employee, as well as our basic strategy on sourcing, as well as what we need to produce in-house to improve. So, it's a question of one being prepared to be flexible in your own production to produce the specialty articles, outsource some commodities and then add value to them to increase the total amount of throughput we can do from our company. All of this while we improve the productivity per employee. So, we have put in a lot of effort into both the SAP and technologies that have been developed in the computer-related areas and technologies, and these will help even our pricing algorithms on what we need to do to be able to price our product at a level where we are not giving away any advantage that we can gain due to our capacities and due to the demand cycle at that particular time. So, it's a very interesting period in which we can use these technologies and modernizations to become a company that can last for the next 20, 30, 40 years after our 50-year cycle. So, in 50 years we are definitely at a point where we are renewing ourselves.

Yash Agarwal: Okay sir, got it. Sir, just one other question. With rising disposable income and changing the consumer preferences, so how you see the domestic textile market will evolve, such as whether there will be a demand for any specific products such as for premium fabric types?

Ravindra Toshniwal: The Indian market has a lot of unlimited potential here in, every area. So, we are going to see growth no matter what, the question is now to be prepared to deal with the new age retailers, those who are now in quick commerce, e-commerce and who are basically looking at supply chains which are more efficient and being vertical we are able to cater to many of these. And we have started doing that as well. So, there is an evolution in types of retail, moving from physical stores to quick deliveries, and this is the big change we have to be able to and we are actually adapting to be able to deal with these kind of customers.

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

Rahil Shah: Since you mentioned inventory is coming back, traction is back from the US market as well, and you are seeing good order books across the segments. So, what are your growth projections, if you can share any for the remainder of the year, or as a whole for FY25 and FY26 as well, and second would be on the EBITDA margins. Will you see some improvement there, or will you stay in the 7% to 8% range for a while before you go back double digit margins, so any timeline there. Two questions, thank you.

Ravindra Toshniwal: Yes, very specific questions. These are a little difficult to answer at the moment, we are seeing that the margins will come back and be at the level at least of what it was in FY24. However, since the first half of the year has not been as good, we don't know if we will entirely, we will definitely surpass in terms of turnover. Now that the turnover in the first half of the year is almost the same as what last year was, and our run rate on the revenue is still continuing to be high, we will surpass the turnover. Whether we surpass the profit objective or not depends on our yarn pricing and the yarn business actually getting better. The yarn business has been really at a point where margins are quite low, rock bottom right now. So, this is the big challenge, if that picked up we would be able to improve and in fact have been better than last year, but this is the challenge the yarn pricing is just not moving right now.

Rahil Shah: Any indication you are getting from the market, like what are people saying with respect to the yarn business? What are you hearing in terms of, any optimism there?

Ravindra Toshniwal: On the yarn business I can't say there is. On the fabric and garment we do have optimism, but on the yarn business I will not be able to say that there is right now, it is challenging.

Rahil Shah: The fabric and garment business are not enough, the margins are not enough to pick up the entire company margins?

Ravindra Toshniwal: Can, this is something where we have to see what happens in terms of our pricing policies. When we are pushing back to the customers and asking for the pricing to be higher, there is always a challenge when the yarn prices are low, because they push back. So, this is something where it is not a secret. However, we do have many of the customers who appreciate that the fabric that we do, and they don't even have an idea of what the yarn pricing is in it. They just appreciate what we do for them, and are insensitive about whether the yarn prices fall or rise. So, a large part of our business is that, and we are getting into the worsted part more and more, where the premium end of the business exists. How much of that we can build to be able to recover in a bad yarn environment and achieve the same result is yet to be seen.

Rahil Shah: Okay. So, from what you are saying margins remain a challenge, but you hope to stay in this region, and you are definitely confident of doing better on the revenue terms?

Ravindra Toshniwal: Absolutely.

Rahil Shah: Any certain percentage you would like to attach?

Ravindra Toshniwal: Not at the moment, maybe at end of quarter three.

Moderator: Thank you very much. The next question is from the line of Raman KV from Sequent Investment. Please go ahead.

Raman KV: Sir, I just have two small questions. One, you said that the current CAPEX is with respect to upgrading of the machinery, with respect to spinning as well as garmenting division, so that there will be a decline in the labor and labor costs, right?

Ravindra Toshniwal: Yes, the productivity of the labor should improve, yes.

Raman KV: So, till when will we see some, the improvement in the productivity, from which quarter in which can we see the improvement in the productivity, I am assuming this will not just improve the productivity, but margins will also improve?

Ravindra Toshniwal: If you look, we have been able to preserve the gross margin. And in spite of that, the profit at the bottom line has dropped because many of the costs have increased due to the interest cost, the freight cost and many other expenses which we were not able to in this environment pass on to the customer. Moving forward we are pushing for these pricing both in the fabric and garment business where we can push and it is appearing that maybe if we get those price increases which we are asking for, we will be able to get the margin back. But, apart from that, if these overheads themselves allow more productivity to happen and more goods to be sold, the turnover increases, then the productivity per employee automatically is more. At the end of the day, it is about turnover per employee. So, that is what we are trying to achieve with this modernization, that even though we will have a similar capacity in terms of the total number of spindles, those modernized spindles will give you more kilograms. With the same labor, and therefore allow you a better margin. All of this to come to fruition will take maybe up to quarter four and maybe in quarter one of the next financial year you really see the benefit coming, and then we should be in a steady state where we can achieve a better margin consistently.

Raman KV: Okay. So, basically, we will be able to notice it in from Q1 of next year, right?

Ravindra Toshniwal: That is more conservative and correct, you will see it more in Q1, of the next financial year.

Raman KV: Okay. And sir one more question. So, I have looked at the PPT the growth plan which the company is trying to go with wherein they want to improve the product mix with respect to addition of high value-added technical fibers, and now that automotive fibers, we have a JVwith Tesca or with respect to automated fibers.

Ravindra Toshniwal: Automotive fabric. Basically all the fabrics are seat covers, for the seat covers of most of the major Korean vehicles, like KIA, we are supplying these seat covers to them, and the soft interiors of the cars.

Raman KV: Sir I am just trying to understand the given the economic, what will be the impact on the margin, till there be a pickup in the…..

Ravindra Toshniwal: So, we are 50% roughly partners in that business, and that business is making like turnover last they did about 40 crores and earned around 2.5 crores profit in the last quarter. So, we get a share of that profit in our balance sheet.

Raman KV: Okay. At the optimum level what is the revenue expected from it?

Ravindra Toshniwal: They could do close to about 200 crores, but this depends on the growth in the automotive business.

Raman KV: 200 crores per quarter or yearly?

Ravindra Toshniwal: Yearly. Quarterly there will be about 50 on an average, the way they are expanding.

Moderator: Thank you very much. The next question is from the line of Randeep from Investire Investment. Please go ahead.

Randeep: My first question was regarding other expenses which have increased considerably. Some of them must be due to the introduction of Simone fabric. And what are the other heads which they have increased in?

Kavita Gandhi: If I can take up that question. So, other heads like, mainly what has happened. We had some one time repairs and maintenance, and also we had some freight increases happening compared to the last H1 because of the changes in the Red Sea scenario and all that thing. So, we saw that like more of a one-time expenses which had happened due to that, that other expenses component is seeing on a higher side.

Randeep: Okay. On a regular basis, what percentage of sales will this constitute?

Kavita Gandhi: On a regular basis if you look at that percentage should be in the range of around 14% kind of, and this time it's because of this one time it rises up to 17%.

Randeep: Okay. The second question regarding the garmenting division, seeing your presentation in Q1 FY25 you did about seven lakh pieces, and in Q2 FY25 you did about 13 lakh that's nearly double, but the capacity relation has increased by 2% from 46% to 48% so could you explain this?

Ravindra Toshniwal: Yes, the increase in the number of pieces, the sales volume you are saying?

Randeep: Yes, it's nearly doubled if you see from last quarter, from seven lakh to 13 lakh pieces?

Ravindra Toshniwal: So, they were holding a lot of inventory of these goods at that time. That inventory got liquidated later, this was because a lot of goods were produced and not lifted by customers.

Randeep: Okay. The production was more or less same basically?

Ravindra Toshniwal: Yes, the production was more.

Randeep: Okay. And one more question regarding your technical divisions, normally technical divisions have a very higher profit margin as I do consumer fabrics. So, now what, because you are giving me for 40 crores you are getting a net profit margin of 2.5 crores. So, this is going to be the constant figure, or later this is going to increase?

Ravindra Toshniwal: It can increase, but right now this is what we are managing to get because the competition in the automotive fabric business is very intense.

Moderator: Thank you very much. As there are no further questions from the participants, I now hand the conference over to Mr. Ravindra Kumar Toshniwal for closing comments.

Ravindra Toshniwal: Thank you everyone for listening in on these Q2 results of ours. As you see, the textile industry is facing a period where there is a possible sunshine ahead. And we look at a situation in which, if we are able to use all of the investments we made in modernization to create products, where the consumers in both India as well as abroad, who are coming to India find in Banswara solution that is available to them that will replace China. There is no reason why we can't get back to our target, which we always internally set, to achieve an EBITDA margin of maybe 12% or something like that or close to that. We haven't been able to do this yet, but we remain optimistic on how we can get there in a consistent way over a few years, to achieve that without the market cycles disturbing us. And this remains our endeavor, that we continue to find ways to add value to the consumer that is not driven by the commodity cycle pricing but driven by our service and product. So, we look forward to be able to achieve that in the coming years. Thank you for your patience with us, and thank you for listening in.

Moderator: Thank you very much, sir. On behalf of Banswara Syntex Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.