RSWM Limited
an LNJ Bhilwara Group Company

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RSWM/SECTT/2024
May 31, 2024

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 Monday, 27th May 2024.

Dear Sirs,

Please refer to our Earnings Conference Call scheduled for Monday, 27th May 2024 at 04:00 PM (IST), as intimated vide our letter dated 16/05/2024.

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of the said Q4 & 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.

Thank you.

Yours faithfully,
For RSWM LIMITED

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RSWM Limited
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RSWM Limited
Q4 & FY24 Earnings Conference Call Transcript
27th May 2024

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 RSWM Limited Q4 and FY24 Earnings Conference Call. We have with us today from the management, Mr. Avinash Bhargava - Chief Financial Officer, Mr. Surender 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 touchtone phone. Before we proceed with this call, I would like to take this opportunity to remind everyone about the disclaimer related to this concall.

Today's discussion may be forward-looking in nature based on management's current beliefs and expectations. It must be viewed in consumption with the risk that our businesses face, 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: Good afternoon to everyone and thank you for attending today's RSWM Q4 &FY24 Earnings Conference call. I hope you all had the opportunity to go through the Earnings presentation & Financial results announced on Friday, 24th May 2024 which are available on the Stock Exchange and our website. Let me first begin the Economic Outlook in Textile Industry update. I may have somewhere pause because I am not feeling well today.

About the Global Economy, we find ourselves in a dynamic global landscape with elections happening across numerous nations & territories representing over half of the world's population. The global outlook in early 2024 is cautiously optimistic with various factors influencing growth on one side and interest rates on other. Inflation declining steadily from the peak level but remains above the comfort level. Interest rates remain high and consumption levels remain subdued. War fatigue easing pains of the last two years, uptick was seen in economic activity in most of the European countries. However, the Red Sea crisis has caused a rise in shipping costs, making freight rates increase by 2.5 times compared to last year. Red Sea crisis is throwing fresh supply chain management challenges.

I am pleased to say that the Indian Industry stands out as a bright spot. Strong government support for building infrastructure, increased investment from the private sector, and robust domestic consumption are all contributing to its success. The Indian economy continues to show resilience, with a projected growth rate of over 7% in FY25, supported by stable inflation, interest rate, currency, and rising Forex Reserves. Our market has consistently outperformed our global counterparts reflecting the strong fundamentals of our economy and earning potential of companies across the sectors. India's strong structural drivers and economic fundamentals remain intact, encouraging investors to continue participating in its growth.

Now, coming to the domestic economy. I would like to share some positive updates about the Cotton market. Recently, cotton prices have increased and are now settled around ₹58,000 to ₹60,000 per candy from approximately ₹55,000 per candy earlier this year. Additionally, the China-India Cotton trade has remained positive since February'23. Highlighting the growing competitiveness of Indian Cotton. Although this trade has narrowed slightly in the last two months, it still indicates that our cotton is doing well globally. Looking ahead, experts suggest cotton availability to improve in the coming quarter due to healthy crops.

In the first half of 2023, export demand for textiles including cotton, yarn, garments & man-made textiles experienced a decline of 18% YoY. However, in the second half of the year, we saw a significant rebound, with an 8% YoY increase. Overall, textile exports in 2023 amounted to USD 30 billion showing a 7% decline compared to the previous year. Encouragingly, the positive trend has continued into the first two months of 2024 with exports growing by 7% YoY. Additionally, with stable cotton prices, we anticipate continued improvement in profit margin. The expansion of cotton yarn spread is likely to benefit spinning mills, providing a positive outlook for the textile industry.

In October'23, India implemented BIS Certification and Quality Control Measure to address the issue of cheap polyester yarn flooding the market due to a slowdown in the Chinese Domestic Market, which has already shown positive results with polyester yarn import declining significantly from 106k tonnes in September 2023 to 13k tonnes in November'23. Imports are expected to reduce by 40% to 50% from 455k tonnes in 2024 to around 240k – 260k tonnes in 2025. Although there was a delay in implementing these measures, leading to a buildup of inventory during the festive season, the long-term outlook remains positive. The reduction in cheap polyester yarn imports will benefit Indian manufacturers by supporting better realization and volumes in the domestic market.

Looking ahead to FY25, we expect yarn prices to remain stable as the dumping of cheaper polyester yarn in India is likely to decrease. However, there is a potential risk of an increase in the dumping of cheap polyester fabric. Prices for PTA and MEG are expected to decline, which could positively impact production costs. Although capacity utilization in Denim production is currently lower in India compared to Bangladesh and Turkey, we anticipate improvement in this area moving forward, enhancing the overall competitiveness of the Indian Textile Industry.

Now I am coming to Company's Operational Performance. Our company has demonstrated exceptional operational resilience by operating at full production capacity, a feat that distinguishes us from many of our peers. We have effectively managed our operations to ensure continuity and efficiency. Moreover, we have successfully controlled our finished goods inventory and significantly reduced ageing stock. Our financial health is robust with no instances of bad debts, major claims, or held-up FCL, reflects our strong financial management practices.

Currently, most of the mills are facing a labour shortage, making the delivery extended, in turn making business enviable. Despite challenging market conditions, we have sustained consistent sales of our differential products. Our premium cotton product, Kaapas has achieved remarkable success, commanding a higher price point of ₹6 - ₹8 more per kg compared to our competitors. We have effectively attracted and retained quality customers with repeat order underscoring their satisfaction and loyalty, highlighting our Competitive Strength and Strategic Capability. FY24 was tough for the entire Denim fraternity. However, if we consider the organized Corporate Sector except LNJ Denim, which is at 96% no one else was able to achieve good utilization in terms of sales against installed capacity. Our Knits plants have a collective manufacturing capacity of 780 tonnes per month, which is spread at two locations, which is Chhata, district Mathura in UP with 350 tonnes and Mordi, Banswara with 430 tonnes. There is a positive flow of enquiries for export sales. However, at the same time, the conversion rate to bulk is very low due to extreme challenges in terms of prices.

A major milestone for us this year was acquiring the Spinning, Knitting and Processing Undertaking at Chhata in Mathura, UP from Ginni Filament Limited. In this quarter, we have completed the acquisition of the Spinning, Knitting and Processing undertaking of Ginni Filament Limited, which will enhance the company's production capacity. Yarn output is expected to increase by 55 tonnes per day including combed, carded, P/C and open-ended yarn production. The acquisition enlarges RSWM's footprint, cementing its standing in the spinning and fabric industry by incorporating substantial capacity: 80,016 spindles, 720 rotors, 12 tonnes per day of knitted fabric, and its processing. Acquisition synergies boost EBITDA, ensuring financial stability with anticipated earnings growth promising an improved EPS for RSWM Limited.

The RSWM management is pleased to inform the investors about the value creation on its investment in equity shares of Bhilwara Energy Limited, through unrealized mark to market gain of ₹138 crore on fair valuation. This move aims to better address growth prospects and provide a focused approach to management, unlocking better valuation for shareholders.

Discussing our financial performance for Q4 and FY24, we are pleased to share that our revenue in Q4FY24 reached an impressive ₹1,171 Cr, showing a solid QoQ growth of 19.9% and an impressive YoY increase of 22.5%. This growth reflects our team's hard work and the success of our sales strategies. Next, our gross profit for Q4FY24 was ₹403 Cr, a notable 16.3% increase from ₹346 Cr in Q3FY24, an 18.1% rise from the previous year. Our gross profit margin for the quarter was 34.4%, highlighting our profitability. In terms of EBITDA, which measures our operational efficiency, we saw an impressive rise from ₹22 Cr in Q3FY24 to ₹54 Cr in Q4FY24, with an EBITDA margin of 4.6%. Additionally, our Profit Before Depreciation and Tax was ₹24 Cr bolstered by an Exceptional Income of ₹138 Cr from an unrealized gain on a fair valuation of our investment in Bhilwara Energy Limited shares. Consequently, our Profit before tax was ₹121 Cr and Profit After Tax work for Q4FY24 was ₹100 Cr.

For the Full Financial Year 2023-24, net sales reached ₹4,057 Cr, an increase from ₹3,789 Cr in FY23. Our gross profit for FY24 was ₹1,448 Cr with a gross profit margin of 35.7%**.** For the full year, EBITDA stood at ₹132 Cr within an EBITDA margin of 3.2%.

As we move forward, we are committed to maintaining this positive momentum, further improving our financial performance, and delivering long-term value to our stakeholders. With this, I conclude my speech and welcome your questions in the Q&A session.

Moderator: The first question is from the line of Tanush Mehta from JM Financial. Please go ahead.

Tanush Mehta: My question is that total sales for Q4FY24 were ₹1,171 Cr reflecting a 19.9% QoQ and 22.5% YoY growth. So, what were the primary drivers behind the significant sale increase? And which segment contributed most to this growth?

Avinash Bhargava: You know that the entire textile industry was facing selling pressure in Q1 FY2023-24, H2 was a little bit better. This Q4 every year remains better than the other three quarters of the year. The first to liquidate our stock level, we push to realize our current assets to make better the financial year that was the whole story. Secondly, all the plants were using their fullest production capacity utilization. The stock levels were around 12,000 metric tonnes, which came to around 5,200 metric tonne in Q4 FY2023-24. That was the reasons of increase even after stressed prices of yarn or any other product of textile.

Tanush Mehta: The next question is that RSWM recently completed the acquisition of spinning, knitting, and processing undertaking at Chhata unit from Ginni Filament Limited, so what are the expected long-term benefits from this acquisition?

Avinash Bhargava: The Knitting business has good business potential, and this place is very near to Jewar Airport in Greater Noida. This plant has proximity from Jewar Airport so in future foreign buyers or domestic buyers will remain comfortable while they will visit this Chhata unit for purchase of knitting fabric. This is also applicable for yarn also, because both the units are in NCR, very near to Punjab, getting in a big way Panipat market and the Ludhiana market; with some amount of investment, this unit will come at par with our existing units. That was the rationale behind acquiring this unit.

Moderator: The next question is from the line of Saket Kapoor from Kapoor & Company. Please go ahead.

Saket Kapoor: Sir, you firstly alluded to the fact about the fair valuation part of the Bhilwara Energy investment that we have done as RSWM earlier. So, is this regarding the restructuring or the carving out of two separate entities then by our promoter group, HEG that has all resulted in this fair valuation part of the story or what led to this fair share valuation currently?

Avinash Bhargava: You are right that the restructuring of HEG and Bhilwara Energy has led to this fair evaluation and it resulted into the fair valuation mark to market gains to RSWM also since it has around 7.56% shareholding in this.

Saket Kapoor: In Bhilwara Energy since RSWM holds 7.56% in Bhilwara.

Avinash Bhargava: RSWM has 7.56% equity shareholding in Bhilwara Energy Limited.

Saket Kapoor: And now with this valuation, we will get an opportunity as the same would get listed going ahead, so that that is the positive also that we need to factor for our investment.

Avinash Bhargava: Future will say, I cannot comment on that.

Saket Kapoor: No, that proposal has been elaborated in the HEG presentation where it has been explained that what will lead to what going ahead, so that is what my understanding was there.

Avinash Bhargava: They may have that presentation there, but I have not listened that presentation at that time. I have not seen that presentation, but there may be chances of listing of this company. But I can't comment on that.

Saket Kapoor: Coming to our Ginni Filament acquisition, so for this current year for FY24-25, we will be running this plant at an optimum level and what would be its contribution to the turnover and if you could just elaborate its contribution.

Avinash Bhargava: It is a very good question. Entire 80,016 spindles are being run at full capacity. But you know that since the machinery is 25-30 years old, the product of this has quality issues which will be addressed after some investment; which will come in due course, after our board approval.

Saket Kapoor: And have you worked out what kind of this investment?

Avinash Bhargava: Investment is under consideration proposals have been made, but we are evaluating this proposal and once it is approved by the board, we will be going for some additional investment for the modernization of machines for balancing of the plant. Otherwise, the entire plant is running at full capacity. There are no issues at all. It's a running plant.

Saket Kapoor: What would be its contribution without the additional expenditure or the modernization exercise? What would be the running at an optimum level?

Avinash Bhargava: Since we have acquired it very recently, we are doing a micro study for that. It has just completed three months. Within three months, it is difficult to comment on that, but definitely after this June quarter, we will come up with something.

Saket Kapoor: One more point about our CAPEX that we have done alluding to our Slide #12, wherein we have spoken about our growth drivers. So, if you could explain in detail the investment, we have done in the Banswara, the Lodha and how is that investment going to contribute going ahead and what is its contribution for the current financial year?

Avinash Bhargava: We have just started this plant practically in October'23. 8 to 9 months have gone. This plant is running well with the best quality, with best efficiency of production, with good profitability, with better value addition, compared to our peers, compared to other units within our company. It is about ₹6/kg to ₹8/kg plus. So, you can expect good amount of profit, but it all depends only this project execution is not sufficient. We have to see the current cotton rates also, the current political, I mean elections also. In this election, we were not able to run as in April and May we have got some labour losses, but definitely you can evidence good profit, good quantum of profit and good quality of yarn in this Kaapas Project in Lodha, Banswara.

Saket Kapoor: So, you are commenting on the fact this quarter is also affected by the ongoing elections that has resulted into lower production days for our company

Avinash Bhargava: Though we were running at full capacity except labour shortage and all, it resulted into lower production. Capacity utilization is full but when the workers will not come due to election or due to this drop, it remains difficult to run the plant fully. But after this election in Rajasthan, everything is addressed and now there is no issue at all.

Saket Kapoor: And currently our units are running at higher 90% or what is our utilization levels across all the units?

Avinash Bhargava: It is at higher 90%.

Saket Kapoor: Sir, in the Slide #12, it is mentioned that the company invested ₹410 Cr in expanding its Denim cotton, and Melange yarn and then again we have mentioned about a capital expenditure of ₹315 Cr during FY23 for expanding capacity, so in totality have we spent ₹715 Cr or are we need to separate this investment.

Avinash Bhargava: Firstly, it is not ₹715 Cr, it is ₹725 Cr. It includes 30,000 spindles as in Melange yarn segment, one is around ₹155 Cr in Denim, and around ₹85 Cr in knitting. It makes around ₹410 Cr and again ₹315 Cr in case of Kaapas, Lodha so it is ₹725 Cr. And it is not only in 2023-24, within these two years, the investment is up for about ₹725 Cr.

Saket Kapoor: And also, on the Knitted fabric parts if you could just explain.

Avinash Bhargava: Knitted fabric is around ₹85 Cr at Mordi, Banswara.

Saket Kapoor: So, what kind of incremental revenue are we expecting and when will this segment start contributing profitability?

Avinash Bhargava: Kaapas will generate around ₹500 Cr - ₹600 Cr, and this ₹4,057 includes the turnover with teething problems for five months of 2023-24. So, next year's turnover should be around ₹5,000 Cr, +-5%.

Saket Kapoor: Assuming the exit rate of yarn prices for March quarter, ₹5,000 Cr top line. The topline that you are saying of March the selling rate we are taking we are taking that of March exit? What is the average selling rate we are taking?

Avinash Bhargava: The average selling rate that we are taking, is the average of two years. Nowadays the prices from FY23 have become ₹164/kg from ₹189/kg in case of PV grey yarn. In the case of cotton grey yarn from ₹259/kg to ₹248/kg in cotton grey yarn. In the case of PV Dyed it was ₹244/kg in FY23 and FY24 it is ₹207/kg, so the price realization during this FY2023-24 was lower than by around 10%, in case of every type of yarn and in case Melange it is less by 25% from FY23 to FY24.

Moderator: The next question is from the line of Madhu Sharma from SK Capital. Please go ahead.

Madhu Sharma: So, my first question is on the volume growth outlook for FY25 given we have excess capacity, so we want to ramp up our new facility also, so what is your outlook for FY25 in terms of volume growth?

Avinash Bhargava: Volume growth will be around 850-900 metric tonnes.

Madhu Sharma: The second question is could you elaborate RSWM approach towards risk management and mitigation strategies, especially considering?

Avinash Bhargava: Let me correct. It is not 850 metric tonnes it would be around 2000 metric tonnes; putting together this Chhata unit and this Kaapas unit at Lodha. Because, we have taken this production for five months only during 2023-24. Chhata, we could take around one and half months production in 2023-24, because the acquisition was from the 16th of Feb'24.

Madhu Sharma: Could you elaborate on the RSWM approach towards the risk management and Mitigation strategies, especially considering the inherent uncertainties in the global economic environment?

Avinash Bhargava: The Company like RSWM is doing for risk management is that we have the Risk Management Committee which includes Directors, CFO and all Stakeholders like Business Head, Business Head - Yarn, Business Head - Denim, Business Head - Mélange, Business Head - Knitting and then Company Secretary and lastly Chief Information Officer. All kinds of risks are discussed and if any new risk is identified, it is being added and we review these risk metrics twice a year. This is an answer for your first question. Risk management first question and second question was?

Madhu Sharma: Mitigation Strategy.

Avinash Bhargava: We always try to comply all the things all the laws of the land for which we have identified Grant Thornton to review our compliance risk on a month-to-month basis and then to discuss with the CFO on a quarterly basis. Secondly, when we face any kind of legal issue, we try to engage the best available advocate of the country. But from the God's sake, no big litigation is pending with RSWM. Anything else?

Madhu Sharma: What are RSWM's Capital Allocation plans for upcoming quarters, particularly in terms of Investment and Debt management?

Avinash Bhargava: We are not planning any big expenditure in risk management kind of thing except, we are addressing environmental issues by improvement in our ETPs and our STPs these kinds of risks are being addressed through the CAPEX otherwise no other CAPEX for debt management.

Moderator: The next question is from the line of Akshat Shah from Niveshay Investment Advisors. Please go ahead.

Akshat Shah: I want to ask you what way we are going to revive the margins because due to the bad global cycle margins have been affected very badly.

Avinash Bhargava: To revive this profit margin, we have rejuvenated our New Product Development segment which was not generating much profit and now we are focusing in a better way to our new product development segment. We are optimizing our cost again though we are continuously doing this. It all depends on the market, and we hope that this year the profit margin should be good as H2 2023-24, indicating towards better future.

Moderator: On behalf of RSWM Limited, we would like to formally conclude this Q4 FY24 Earnings Conference Call. 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. Thank you.

Avinash Bhargava: Thank you so much. Thank you so much for your patience listening and being with us for such a crucial year. Thank you so much.

(This document has been edited for readability purposes.)

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

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