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RSWM/SECTT/2024
August 17, 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 Tuesday, 13th August 2024.

Dear Sirs,

Please refer to our Earnings Conference Call scheduled for Tuesday, 13th August 2024 at 04:00 PM (IST), as intimated vide our letter dated 05/08/2024.

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of the Q1 FY25 Earnings Conference Call. The transcript is also available on the Company's website.

You are requested to take the same on record.

Thanking you,

Yours faithfully,
For RSWM LIMITED

SURENDER KUMAR GUPTA

Digitally signed by SURENDER KUMAR GUPTA
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RSWM Limited
Q1 FY25 Earnings Conference Call Transcript
Tuesday, 13th August 2024

MANAGEMENT:

- **Mr. B M Sharma, Joint Managing Director**
- **Mr. Nitin Tulyani, President & CFO**
- **Mr. Rakesh Jain, General Manager - Corporate Finance**
- **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 Q1FY25 Earnings Conference Call. We have with us today from the management, Mr. BM Sharma - Joint Managing Director, Mr. Nitin Tulyani - President and CFO, Mr. Rakesh Jain - General Manager - Corporate Finance, 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 the 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 belief 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. Nitin Tulyani for his opening remarks. Thank you and over to you, Sir.

Nitin Tulyani: Thank you for the introduction. Good evening to everyone and thank you for attending today's RSWM Q1 FY25 Earnings conference Call. I hope you all had the opportunity to go through the investor presentation and financial results which were announced last Friday, which are available on the Stock Exchange and our website. So first let me begin with the economic outlook and the textile industry update.

Coming to the economy, the global economy has done better than expected, showing strength despite ongoing geopolitical challenges, the chance of a recession has gone down and the global economy has managed well with the high interest rates. The economic outlook for India remains positive. The Indian economy grew by 8.2% in FY24, which was higher than the predicted, and the RBI expects a real GDP growth rate of 7.2% for FY25.

Key factors driving this growth include significant government spending on infrastructure, a strong manufacturing sector and solid domestic demand. The recently announced union budget supports the vision of a self-reliant Bharat. It focuses on important areas like the MSME sector, agriculture and manufacturing and gives a strong push to job creation and skill development, which can help the country reach its next level of growth. The emphasis has been on keeping strong fundamentals, supporting areas of opportunity and sticking to the fiscal plan.

The budget allocations for the textile sector have been increased by ₹974 crore to ₹4417 crore in the Union budget 2024-25. The budget presented by the Honorable Union Finance Minister Nirmala Sitaraman, raised the allocations for the research and capacity building in the sector to ₹686 crore from existing ₹380 crore. It also proposed reducing the basic custom duty on real down filling material derived from ducks or geese to enhance the competitiveness of Indian leather and textile exports.

The current disruption in Bangladesh have undeniably impacted the textile industry, leading to significant challenges in production and exports. However, this situation also allows India's textile sector to strategically pivot and explore new markets. By capturing the portion of Bangladesh's global textile orders, particularly Europe and the US, India could mitigate the immediate challenges faced and position itself for long term growth.

With a concerted effort to adapt and innovate, the Indian textile industry has the potential to emerge stronger from the crisis, turning short term setbacks into the enduring success.

Now coming next to the update with respect to the textile sector. In India, cotton prices are corrected to around ₹55,000 to ₹57,000 per candy as of the last week of June 2024 from ₹58,000 to ₹61,000 per candy observed in period ended March and April 2024. India's cotton prices have regained the premium over the US cotton, which could negatively impact cotton yarn exports, if sustained. The average yarn spread decreased by 0.9% quarter over quarter in Q1FY25 to ₹100 per KG from 101 per kg in Q4FY24, reflecting a slight correction in yarn and cotton prices. This reduction in spread could put pressure on our margins if the cotton prices

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remain at these levels. The cotton yarn spread has remained stable at ₹100 per KG in May-June’24, with the six months of the current year 2024, the average spread and approximately ₹99 per KG. This is a decline from the higher average spends of ₹120 to ₹130 per KG in FY21 and ₹111 per KG in FY22.

The spread’s stability provides some relief, but still indicates a challenging environment compared to previous years. India's textile exports, including cotton, yarn, garments and man-made textiles, faced a slight recovery in six months of the current year 2024 with a 5% year over year growth reaching $11 billion. Notably, US imports of Indian home textiles increased by 17% year over year in volume and 10% year over year in value during the same period despite an overall 9% decline in the US Home textile import in last year.

Key areas to monitor include the revival of export demand and textile export continue to face challenges. The stability in cotton prices is a positive factor for inventory management while the cotton yarn spreads remain a critical measure for the Spinners’ profitability.

Now, coming to the company’s operational performance, the company has maintained full production capacity distinguishing itself from many of its competitors. This achievement shows the company's ability to manage operations effectively, even in challenging conditions. The company has also managed its inventory well, reducing aging stock, which has been controlling the cost and improving the overall efficiency. Financially, the company has demonstrated sound management practices with no occurrences of bad debts, major claims, or held up full container loads. These results indicate that the company is in a strong position within the industry and solid foundation for future growth and success. The company recently entered into an agreement on 12th of July 2024 to sell its thermal power plant, which has become cost inefficient and redundant. The same is being made to with Didwania Trading Co. at Bhilwara for a consideration of ₹48 crore plus taxes.

At the board meeting held on 9th August 2024, the board approved a capital expenditure of approximately ₹740 crores to establish a Greenfield unit in Jammu. This new facility will produce recycled pet chips and recycled filament yarn with an expected production capacity of 270 metric tons per day. The project will be financed through a combination of term loans and internal accruals, with an estimated completion period of two years. The primary goal of this project is to expand the company's existing operations. This move aims to better address growth prospects and provide a focused approach to management, unlocking better valuation for shareholders.

Coming next to the company financial performance. We are pleased to share that the company’s financial performance in Q1 FY25 reflects steady progress in key areas. Sales has increased by 3.1% quarter on quarter to ₹1,208 crores with the year-on-year growth of 34% compared to Q1FY24. This is indicating a sustained demand for our products. Our gross profit rose by 7.8% quarter over quarter and 29.2% year over year growth to ₹434 crores reflecting effective cost management alongside the revenue growth. Also, the gross profit margin improved by 155 basis points quarter over quarter to 35.9% although there was a slight decrease of 135 basis points on a year-on-year basis.

The EBITDA levels were reported at ₹54 crores with a year over year increase of 2.2 times compared to Q1FY24. The EBITDA margins saw small decline of 17 basis points quarter over quarter, indicating stable operational efficiency. The quarter ended with the net loss at the PAT level of ₹14 crores. While overall, these results suggest that the company remains aligned with its growth plans and is focused on further strengthening its performance. 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 question with the Q&A session. Thank you.

Moderator: The first question is from the line of Mithil Bhuva from unlistedindia.com. Please go ahead.

Mithil Bhuva: Thank you for the opportunity. Sir, I had a couple of questions. The first question being when does the management feel, the EBITDA margins rising back to normal levels? So, at 4%, I guess the sustainability is not that easy to sustain at 4%. So, when does the management feel it getting back to at least 10%? And second question is like, for example, when we compare with our closest competitors Nitin spinners, why does Nitin spinners have a higher EBITDA margin when compared to RSWM?

B M Sharma: OK. Your question #1 when EBITDA margins you know can be normal? A lot depends actually, you know what the geopolitical situation takes shape, you know, for the last two years, company like RSWM which was having 35% in export volume and many companies, you know, which were having substantial, you can say export exposure, they got impacted first due to Ukraine-Russia war and off late you know due to what is happening in the Middle East. As of now, we started looking for alternate markets and when I say alternate market, I'm talking about Latin American countries, but the shipping cost is very high and then this disturbance started happening, you know, in the Red Sea area. So, it all depends actually when things get normalized you know so far as war is concerned, between Ukraine and Russia and what is happening in the Middle East. The things which are under our control, we are taking care of that. Number 2, Comparison with Nitin Spinners, well, I think it's unfair comparison because Nitin Spinners is predominantly into cotton whereas our stake in cotton is only one third and Number 2, any company you know which is let's say having 7%- 8% employee cost because the key responsibilities of the management are handled, you know, by the members of the family, we cannot compete actually, with that. I can tell you internally we compare our results with Sutlej and we have been doing this for the last 8-9 years because our product basket is same.

Mithil Bhuva: Sure. Yeah. So, any plans to get into that line so that our EBITDA margins actually increases?

B M Sharma: We improved, you know, our cotton capacities, we added 52,000 spindles. You know by adding this Kapaas facility. Kapaas as of now on a standalone basis you know is doing very good. In fact, we branded, you know the product from that cotton bill Kapaas is the brand name which is as of now commanding a premium. But as I said, you know, like cotton is a very small portion of our product basket, but like let's hope going forward with cotton prices stabilizing, let's say at the range of 58,000 plus minus 2000 and all things should be normal for most of the cotton companies. Synthetic side, there are still challenges because synthetic a lot depends on the blend and global oil prices which has been showing, you know lot of volatility in the last 6-7 months.

Mithil Bhuva: OK. Sir, as investors, it becomes very difficult for us with the volatility in the margins to value the company actually and that's why I was just looking out for some stability in the margins. But we're it's kind of difficult in a cyclical business, but still, that's a key challenge for us. So that's why I was just looking out for a like a stable margin kind of scenario.

B M Sharma: Well, I don't know how many of you are keeping track of the polyester pricing scenario, if you know last year the Government of India came out with QCO and this QCO was designed around the fiber prices. Now, what is the impact of this? The impact of this is that there is 17 to 18% gap between international polyester prices and the prices which are available from the domestic manufacturers. The thing is, it has been taken up with the ministry also in case you see your order was to come, it should have come actually on the final product. Now China is dumping yarn, which is made of cheaper polyester which is available to them in China. But I cannot use the same fiber because import of that is not allowed because it does not meet, you know QCO norms and all. And I don't have access to this. So, I am in a very unfair, you know situation sitting here and competing with China. Last 12 months, fabric import from China was around 400 tons you know per day it is now 1100 tons, you know. And with a market like Ludhiana, which was a key market for us also like for Jerseys and for you can say knitted fabric and all, we are normally 8 count and 16 count used to go, we have been completely out priced you know by China. So, these are the challenges, but we have found out alternate market. We are not getting the price that we were getting in Ludhiana market but still like for survival, one has to, you know, find out ways. That's what we have been doing.

Mithil Bhuva: OK, OK. Yeah. OK. Thank you so much, Sir. Thank you.

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

Tanush Mehta: Thank you for the opportunity. So, my first question is regarding Greenfield project in the state of Jammu. So what subsidies are we expected to receive for setting up the Greenfield project?

B M Sharma: OK. And second question.

Tanush Mehta: And what revenue can we expect from this unit once it became fully operational?

B M Sharma: OK. Question number one, what subsidy are we expecting? OK, Jammu and Kashmir Investment Promotion Scheme says that whatever is your investment in plant and machinery, 3x of that will be given to you as subsidy over a period of 10 years subject to limiting this to the GST applicable on the product, you know that you produced there. So as of now, if I say I am investing 700 Cr. Out of 700 Cr, 400 something let's say in plant and machinery, the subsidy will be 400*3 = 1200 Cr over the period of 10 years, which is 120 Cr every year and #2 the revenue generation, well, the product basket that we have identified actually for Jammu project, the turnover to investment ratio is anything between 1.25 to 1.3X.

Tanush Mehta: OK. And my next question is, could you provide an update on the recent situation in Bangladesh? Is it expected to impact our operations?

B M Sharma: OK, it has already impacted operations of most of the textile companies which were having, let's say exposure, you know to Bangladesh. Now, for some companies which were totally dependent on Bangladesh, yes, it may be pretty deep. For us, it's not so significant. But yes, there has been delays in exporting of goods, orders, some orders have been put on hold, you know, on the request of the buyer based out of Bangladesh, there may be some delays, you know in getting our payment and all. So, all those things are there, but I believe as of now when I am speaking with you, the things are getting normal. The factories have reopened. They have started actually you know production may probably take another two weeks you know when things get absolutely normal.

Tanush Mehta: OK, thank you.

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

Madhu Sharma: Good evening, Sir, and thank you for the opportunity. My question is what are the capital allocation plan for upcoming quarters in terms of investment?

B M Sharma: You're talking about CapEx plans?

Madhu Sharma: Yes, yes, Sir.

B M Sharma: OK. Good evening, Madhu ji. As we discussed, you know before, the plan as of now is around ₹700 Cr something will be invested in Jammu and Kashmir. Other than that, as of now we do not have any other plan going for substantially you can say capital expenditure.

Madhu Sharma: Ok Sir. And the next one is the, what steps did we take to decrease the expenses in the recent quarter?

B M Sharma: Well, what can be done for decreasing expenditure, that's one exercise, you know which goes on 365 days a year, some internal steps we have taken is like optimizing the strength at the top level and all and focus is actually on optimizing manpower strength. We engaged external agencies like NITRA and all for carrying out, you know, study on the engagement of workers in different manufacturing processes. Their report is being implemented. I think the results will be felt and seen after one quarter because that exercise is still on. They carried out exercises at 4 plants and their recommendations are under implementation.

Madhu Sharma: OK, Sir. And what is the current debt position?

B M Sharma: Current debt position, I think term loans are to the extent of outstanding term loans around ₹900 Cr, but there's ₹900 Cr something I have been seeing in this company for the last 14 years, you know and in these 14 years, if you see the volume has gone up from 2000 crore to this year like in Q1, we have done 1200, I think at this rate we should be touching around 5000. So, lot of CapEx has gone into these 12 years or so, but the term loans have remained static.

Madhu Sharma: OK, Sir. Thank you, Sir.

Moderator: The next question is on the line of Sujeet Agrawal, an Investor. Please go ahead.

Sujeet Agrawal: Yeah. Hi, Sir. Hope you're doing well. My question was regard to Turkey. How do you see things in Turkey right now? As I understand, we export a lot of yarn to that country.

B M Sharma: Well, the team has returned, you know, just four days back from Turkey and the feedback that we have got is that things are improving there in Turkey, things are becoming normal. Two or three things you know which impacted Turkey negatively like the currency devaluation like the position you know after the earthquake and all and then the supply chain getting impacted because of Ukraine war, the latest info that we have is and our understanding as of now is that things are coming up pretty well actually in Turkey and you can see lot more vibrancy you know going forward in Turkey market.

Sujeet Agrawal: Got it. So there's no dollar shortage or any kind of issue like that like right now because of the financial strain that the country is in?

B M Sharma: No, not as of now. In fact, I can tell you in last nine months, all payments have come, you know, as scheduled, no risk at all.

Sujeet Agrawal: That's very good to know. Sir. And thank you so much for your time. That's. All.

Moderator: The next question from the line of Ashok Shah from LFC Securities. Please go ahead.

Ashok Shah: Thanks for taking my questions. Sir, regarding this Jammu Kashmir plan, do we have any CapEx to be done to save on the power cost like a solar project or something like that or wind project to save on the power cost because becoming a cost efficient is most important in a weak situation which we are currently passing through.

B M Sharma: Ok, to my knowledge they are offering power at the rate of ₹5 per unit, which is very, very competitive. In Rajasthan here it is ₹7.85 per unit, that advantage is there, by way of power subsidy. So, in addition to that, any new plant, we are going to be adding now or in future, we'll have a solar facility or wind power facility at all locations, even existing locations in the last 3 and a 1/2 years or so we have set up almost 32 MW, solar capacity. In addition to that, we have 40 MW wind power also so in Jammu and Kashmir there will be rooftop solar facility.

Ashok Shah: Secondly, Sir, regarding the cotton price situation, do you expect to again go up or it will remain at low level during the current season?

B M Sharma: For that matter, you know any agriculture commodity which is impacted, by the performance of the monsoon, this risk is always there. As of now whatever is coming you know in public domain it's there. That sowing as of now is 10% less than the previous year and the prices in Brazil and US are going to be soft. So going forward, what impact it will make, I think we have to wait, for one month more. The new arrivals start, by the end September and then you will have a fair idea about the size of the crop. Two years back, if you remember what happened, we were very bullish about that good crop and then because of floods and the pink worm, the crop was affected to the extent of 20% or so. So, it all depends on a very critical time, say August 15th to September 15th, if all goes well, we can see sort of a normal crop. Though production maybe less than last year and let's see or in case floods and all affected, the prices may start, going up after 15th of September. The first lot I think which is in the range of 200 tons and all will come after 15th of September only.

Ashok Shah: So, there is no clear view on the cotton price currently?

B M Sharma: No, as of now it's pretty soft. You see going forward well we expect, that should be in the same range, which is ₹58,000 plus minus ₹2,000 per candy. But it all depends how the US market and the Brazilian market behave going forward. The U.S. market you may know is soft and is below 67 cents as of now.

Ashok Shah: Thank you, Sir.

Moderator: The next question is from the line of Mithil Bhuva from unlistedindia.com. Please go ahead.

Mithil Bhuva: Thank you for taking my question again. Sir, in future in the long term, how much do you see knitting and garmenting as a percentage of the wholesale when compared to spinning currently?

B M Sharma: Ok, Garmenting, we are not into garmenting at all.

Mithil Bhuva: Yeah. So, any future plans to get into the retailing part also?

B M Sharma: Ok, future plan as of now, No.

Mithil Bhuva: Ok.

B M Sharma: Knitting like in 16 months, we have come up with a facility of 600 tons per month, which is a very sizable commodity, you know, so going forward probably after 18 or 24 months we can think of adding something there. As of now, no further expansion. Only thing you know which can go up is that a part of total installation has yet to get operationalized, which probably may take around three months or so. Team is working on that, so another 100 tons, you know, can be added by the end of this calendar year.

Mithil Bhuva: And what are the expected gross margins on knitting?

B M Sharma: As of now, I can tell you gross margins are pretty comfortable. Business-wise, it's better than yarn. I think out of four product you know that we have in our basket, yarn side, we still have challenges, but denim and knits and mélanges, they're bleeding as stock.

Mithil Bhuva: Sir given our huge experience within the textile industry, we don't want to get into branding and retail. Any reason why we are not into that?

B M Sharma: Retailing is no. We are not into the B2C segment at all, it's all B2B. Branding like whatever we are selling, whatever product we are making, we already have a brand called Ultima which is very well known in the market, which is synthetic yarn made from SJ 11. And so far as cotton is concerned, we have set up a similar facility and we are branding the output of that mill as Kapaas. Kapaas is the brand name.

Mithil Bhuva: But not on the fabric or knitting?

B M Sharma: No, knitting fabric we are making. But are we going to give a brand name to it, as of now, the answer is no. It's being picked up actually, by all the big global brands, so firms like Shahi and Gokuldas and all the big garmenters, they are buying from us, they are our customers like PVH, Jockey and all, they all are buying fabric from us.

Mithil Bhuva: Ok. Thank you so much.

Moderator: Thank you. As there are no further questions on behalf of RSWM Limited, we would like to formally conclude this Q1 FY25 earnings conference call. We sincerely appreciate your participation in this event and we kindly request that you may now disconnect your lines. Thank you for your time and engagement. We look forward to seeing you in the next quarter. Thank you.

(This document has been edited for readability purposes.)

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

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