

RSWM/SECTT/2023

17th August 2023

BSE Limited Corporate Relationship Department, 1st Floor, New Trading Ring, Rotunda Building, P.J. Towers, Dalal Street, Mumbai - 400 001. Scrip Code: 500350 CIN: L17115RJ1960PLC008216	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
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Subject: Transcript of Earnings Conference Call held on Friday, 11th August 2023.

Dear Sirs,

Please refer to our Earnings Conference Call scheduled for Friday, 11th August 2023 at 03:30 PM (IST), as intimated vide our letter dated 04/08/2023.

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of the said Q1FY24 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

SURENDER GUPTA
VP – LEGAL & COMPANY SECRETARY
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RSWM Limited
Q1FY24 Earnings Conference Call Transcript
11th August 2023

MANAGEMENT:

Mr. Avinash Bhargava: Chief Financial Officer

Mr. Surender Gupta: VP - Legal and Company Secretary

Moderator: Ladies and gentlemen, good day and welcome to the RSWM Limited Q1 FY24 Earnings Conference Call.

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

As a reminder, all participant lines will be in listen-only mode, and there will be 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 conference call. Today's discussions 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. Avinash Bhargava for opening remarks. Thank you and over to you sir.

Avinash Bhargava: Thank you for the introduction. Good afternoon to everyone and thank you for attending today's RSWM Limited Q1 FY24 Earnings Conference Call. I hope you all had the opportunity to go through the “Earnings Presentation and Financial Results” announced yesterday, which is available on the Stock Exchanges and our website. Let me first begin with the economic outlook and textile industry update.

Amidst global expectations of interest rate hikes and inflation concerns, India's economy stands out with a promising outlook. As one of the fastest-growing economies, it anticipates a robust 6% to 6.5% growth rate supported by healthy GDP, controlled inflation and stable interest rates. The manufacturing sector exhibits stability through consistent PMI and heightened capacity utilization, contributing to lower NPAs, a positive credit culture shift is evident in improved repayment intent and rising tax collections.

India's focus on infrastructure, digital transformation and sectoral reform, along with its reliance on domestic demand and favourable demographics underscores its inherited strength. Political stability and progressive reforms further bolster its potential. The adoption of the China+1 strategy enhances the domestic manufacturing sector. In summation, India's economy radiates optimism, poised to sustain growth momentum and embrace a flourishing future.

Now, with respect to the textile industry. The Indian textile industry has grappled with the demand slowdown, but signs of improvement are emerging, primarily characterized by a reduction in inventory levels. Notably, cotton prices in India have undergone a significant correction and now rest at a stabilized lower level. The recent crop yield has been promising,

auguring well for the forthcoming season as well. However, the stabilization of Indian cotton prices slightly above the desired range has left spinners short of their anticipated normal margins. The persistently dwindling demand has consequently exerted downward pressure on yarn prices, further compressing the overall profit margins of the industry. We find ourselves in a situation where markets are facing significant pressure due to low demand and downward pressure on prices. This has undoubtedly presented challenges but within these challenges, there are also opportunities for growth and adaptation. I will talk about the current condition of Yarn, Denims and knits.

Cotton: In India the sowing season commences in October 1st, while the global season starts on August 1st. Throughout the entire season, there has been a fluctuation in the projected crop arrival figures. Initially, the estimation stood at approximately 330 lakh bales; however, numerous private agencies later revised it to around 290 bales. As of now, 305 lakh bales have already been received, with additional time remaining, leading to an anticipated final settling of around 315 - 329 lakh bales. Overall, the current season has witnessed a satisfactory crop arrival. Looking ahead to the subsequent season, the sowing situation appears favourable and the crop size is projected to be within the range of 320 - 340 lakh bales. Concurrently, China has experienced a 10% decrease in cotton crop sowing this year. The price of Indian cotton has initially declined to approximately ₹55k - ₹56k per candy nearing the Minimum Support Price and has now stabilized around ₹60k per candy. With an anticipated improvement in demand, there is a potential for a moderate increase in cotton prices.

The cotton yarn sector has shown some promising movement, except cotton blends which are experiencing their fair share of pressure. New notable development is the extension of the BIS registration deadline for imported yarns, which now stands on October 5th. This extension has led to an increase in the dumping of imported yarn in the segment of 100% poly and 100% viscose. This shift in dynamics warrants attention and strategic thinking to maintain a competitive edge.

Amid these changes, there's a glimmer of positivity in certain regions, like Ludhiana, where knitting capacity utilization is on the rise and production for the upcoming festival and winter season has commenced. This demonstrates the resilience of our industry and the adaptability of our workforce. However, we cannot ignore the fact that some mills are facing challenges, with a decline in the backlog of sold orders for dyed yarns. This situation has led some mills to partially shut down their production lines. Yet, adversity often sparks innovation, and this could be a chance for these mills to re-evaluate their strategies and seek new avenues for growth. Interestingly, our peers in the industry are carrying long stock positions for synthetic yarn, extending even up to 50 days or more. This underlines the cautious optimism prevalent in the market. While July and August historically represent lean months for dyed yarns, there is a ray of hope on the horizon. Improvement in the dyed yarn sector is anticipated around the month of September, paving the way for a potential revival.

In the broader context of markets, we are witnessing promising signs of improvement in the furnishing segment's order flow for the domestic market. However, it's important to acknowledge that the export order book for this segment remains relatively thin. As we navigate these mixed signals, it's essential to consider strategies that balance our domestic and international market presence. Overall, it appears that the market has reached a bottom and is poised for an upward trajectory, especially with the festival season on the horizon. The impending implementation of BIS regulations from October 5th could serve as a catalyst for positive changes. This regulatory shift might discourage importers from bringing in goods beyond the 25th of September, potentially breathing new life into the domestic market.

Now about the mélange yarn: The mélange segment market share within the textile supply chain has been declining due to subdued demand, particularly evident in the limited portion of orders coming in from international brands. On the other hand, domestic brands are displaying a steady purchasing trend, particularly in segments like innerwear and loungewear, which are gradually gaining momentum. In terms of international trade, the monthly imports of apparel in key markets have experienced a reduction of about 10% to 11% compared to the previous year. As for a major domestic brand like Jockey, sales have seen a decline from 1.8 crore pieces per month to the range of 1.4 - 1.5 crore pieces currently. This paints a comprehensive picture of evolving dynamics within the textile industry, where market shifts, sustainability and changing consumer preferences are shaping the trajectory of various segments.

Going forward, denim segments. The FY24 orders are facing delays across brands due to sluggish sales in April and May, with a slight improvement in June due to End of Season Sales. However, brands are grappling with substantial inventory levels. Pricing has emerged as a critical factor, now more influenced by the market. Established mills are aggressively competing with remarkably low prices in both trade and branded segments. While we are diligently monitoring their products and prices, matching their offerings has proven challenging. The market sentiment in the unorganized sector remains subdued, as reduced capacities persist due to slow retail movement and cautious attitudes from dealers and brands. The trend of underutilized capacity observed in the organized sector during 2022 - 23 has extended into Q1 FY23-24. Apart from our operations, no other entity achieved an average utilization rate exceeding 65%. Liquidity is a pressing concern in the secondary market exacerbated by a lengthening average credit period of nearly 180 days. Despite this, we've managed to control overdue accounts, aside from a few customers, achieving collections amounting to over ₹200 crore in Q1 - almost on par with sales. The ageing of accounts receivables remains healthy, with only 4.81% falling within the 90 days or more bracket. This snapshot underscores the challenges and opportunities within the industry, where pricing strategies, market dynamics and financial management play crucial role in navigating the evolving landscape.

Now, we take knits segments. I will talk about current Knits market conditions. In recent times, the market has witnessed a positive upswing in anticipation of the new season, with buyers expressing keen interest in innovative blends and functional fabric structures. However, amidst

this optimistic environment, fabric pricing remains competitive. We have been proactively engaging with prominent garment exporters and brands, consistently focusing on their development and sampling needs. Our efforts have resulted in direct or indirect collaborations with a notable growth of 15 international and domestic brands. Notably, we have recently added esteemed names like Benetton and Puma to our portfolio, from which we anticipate a significant influx of volume orders.

RSWM strategies and promising avenues are maximizing our cotton capacity have been a strategic accomplishment, ensuring optimal resource utilization. Concurrently we are orchestrating a strategic shift towards polyester fabrics. This decision is underpinned by the surging demand for polyester across diverse applications. An example of our strategic pivot is the provision of intelligent fabrics, equipped with attributes such as quick absorbency, UV protection, anti-viral, anti-odour, anti-static and anti-bacterial properties, tailored for shirts for a renewed domestic brand. Another promising avenue is the expansion of our customer base in print fabrics. Our recent initiatives have yielded encouraging outcomes, securing an initial sales order of 25 metric tonnes from Antigua. Furthermore, our recognition of the market trajectory towards sustainable fashion positions us advantageously. With a steadfast commitment to eco-friendly practices and materials, we seamlessly align with the surging consumer demand for environmentally conscious products. This positioning presents us with a valuable opportunity to cater to the growing segment of eco-conscious consumers while contributing positively to the sustainable patient movement.

Lastly, financial results outlook. Coming to our financial numbers. During the quarter our revenue stood at ₹901 Cr. down by 5.8% on a Q-o-Q basis, EBITDA stood at ₹25 Cr. and EBITDA Margins stood at 2.8%. PAT reported a loss of ₹18 Cr. Gross profit is ₹336 Cr. with a Gross Profit Margin of 37.3%. In conclusion, while we acknowledge the challenges we face, we must also recognize the opportunities they bring. By staying attuned to market dynamics, embracing innovation and fostering strategic partnerships, we can position ourselves for growth in the month ahead. Our industry resilience has been tested time and again, and every time we have emerged stronger.

Demand in India has been somewhat restrained, yet with the upcoming festive season set to commence by the end of August, there is an expectation of an uptick in demand over the next two quarters.

Now, I'm available to answer any questions you may have. Please feel free to ask and I will be more than happy to assist you. Thank you so much.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question-and-answer session. The first question is from the line of Saket Kapoor from Kapoor Co. Please go ahead.

Saket Kapoor: Sir, thank you for your elaborate and conclusive opening remarks that have covered many aspects. Sir, firstly just to conclude from your thought that, currently for the textile industry

there are strong headwinds and it will take further time for things to first normalize and then move towards the path of growth. So, this understanding is correct sir?

Avinash Bhargava: Which understanding?

Saket Kapoor: Whether what I am understanding is this understanding is correct that still there are headwinds for the sector these Q1 numbers for us are not that we have bottomed out, these factors are still prevailing in the system and it will take time for the market to first hit a bottom and then start moving up, so it is going to be a long time now. It is not that this one-off quarter is not there that, in this quarter we had lower profits so this will continue depending on the current market decision?

Avinash Bhargava: Yes, because of low demand, low prices, overstocking, electricity and gas prices, a slowdown in the economy has reduced the demand of readymade garments, an average loss of per kg of yarn is around ₹56 and there is a fall in order by 35%, because of sluggish demand in the international and domestic market. It may continue for one or two months. But again, we are very hopeful that with this festival season and then demand by knitting players in the Ludhiana market and other markets, the business will improve within a month or two, it is what we expect. We did not expect a very good H1 but H2 will certainly be a good and better than this H1. It will take time, everyone is facing low demand, low prices, and overstocking everyone.

Saket Kapoor: Sir if you could provide that, out of the revenue from operation how much is the domestic market and what portion is attributed towards export?

Avinash Bhargava: Actually, the allocation of our export and domestic used to be around 65:35. Now, this export has come down to around 25% only. The export market is not responding, because of many reasons you can say the European market has low demand, low prices, pressure on demand, you can say anything. But the fact is that the export is 25% only in the case of RSWM and other players are also facing the same kind of problem.

Saket Kapoor: And then we have also come up with a new capacity augmentation again. So, how long will it take for the new capacity to get commercialized? And what are we spending, you have mentioned the figure, I guess?

Avinash Bhargava: I could not hear properly.

Saket Kapoor: Sir, even in the midst of this slowdown we are augmenting fresh capacity, we have announced capacity expansion. So, by when this capacity will come into stream sir and what are the reasons why are we going ahead with capacity expansion now?

Avinash Bhargava: This capacity expansion was envisaged years back, and for stabilizing this 51,072 spindles unit, will take around one month or one and a half months or two, it will be operationalized and we are doing altogether separate blending for yield of this plant or production of this plant.

- Saket Kapoor:** Sorry sir, I didn't get your point about separate blending?
- Avinash Bhargava:** These will be speciality products only.
- Saket Kapoor:** Correct. Sir, what is the difference in the market price, as you are saying it's a speciality product so, as per your yarn average selling how much more is it?
- Avinash Bhargava:** For Specialty products in textiles you can get anything, if your product is different, your quality is different.
- Saket Kapoor:** But what you have mentioned is in response to the increasing demand for cotton and cotton blended yarn, we have strategically expanded our operation at the Lodha unit, the expansion of 51,072 spindles and its formal inauguration took place on 2nd August. So, on one side sir we are speaking about lower demand and here we are seeing increased demand. So, if you could make me understand what are we trying to convey here?
- Avinash Bhargava:** What I personally feel that whatever was bad we have seen it. Now, the cotton prices are stabilized, definitely, the demand will improve, and the quality of production in this new plant will be much better than the quality which we are producing as of now. And which others are manufacturing as of now.
- Saket Kapoor:** Correct. Sir last two points, firstly on the net debt numbers and our cost of funds?
- Avinash Bhargava:** My net debt is around ₹750 Cr. for a term loan and approximately the same amount ₹600 Cr. or ₹650 Cr. for working capital, it is around ₹1,350 Cr. only and the average cost of finance is around 8% - 9%.
- Saket Kapoor:** This includes the tax advantage, the interest subvention we get from the government?
- Avinash Bhargava:** Okay, after subvention the net cost of funds is around 6% - 7%.
- Saket Kapoor:** And sir what steps are we taking to rationalize the power and fuel cost investment in the renewable segment as we envisaged anything going ahead and what portion is towards the renewable space, current total requirement?
- Avinash Bhargava:** Of what?
- Saket Kapoor:** Sir, in the power and fuel how much is our contribution in the renewable segment and how much are we willing to invest in the renewable segment, what is the mix of power and fuel?
- Avinash Bhargava:** Currently we have around 29 megawatts. And we have added 20 megawatts also through solar power plants.
- Saket Kapoor:** We will do a fresh investment of 20 megawatt?

- Avinash Bhargava:** No, we did it last time. Last year Board approved it, the acquisition of BG Winds, which we have declared on the website also, the BG Winds capacity, BG Winds Power Company Limited is a 100% subsidiary company of RSWM. So, we have acquired 20 megawatts of capacity.
- Saket Kapoor:** So, the total portfolio is 29 megawatts of hydro and 20 of solar?
- Avinash Bhargava:** So, in the case of RSWM, hydro capacity is not there.
- Saket Kapoor:** So, 29 megawatts is towards which category, I didn't get the point, solar only?
- Avinash Bhargava:** Solar.
- Saket Kapoor:** Okay. And sir majority of our sales is towards the B2B or B2C segment?
- Avinash Bhargava:** The majority of products are B2B
- Moderator:** Thank you. The next question is from the line of Vasant Singh from Growth and Value Investment Advisory. Please go ahead.
- Vasant Singh:** Sir, how long will it take before we see any revival happening? Now as we have entered the second quarter, do you see any green shoots in demand from the global and domestic markets?
- Avinash Bhargava:** No one as of now in textile can say when we will revive because we can excel in our operation but market-driven conditions will always prevail. And we hope that in H2, the conditions will be much better than this H1. That's what we can say as of now.
- Vasant Singh:** Okay. And sir what are our current utilization levels?
- Avinash Bhargava:** My current utilization level in the case of spinning, the plant utilization is 100%, the efficiency of the plant may be around 88% - 89%, other players are also running at the same efficiency but the utilization level is 100%. Whenever there is a power issue or any holiday comes up then it's different but otherwise, plants are running at 100% capacity.
- Vasant Singh:** Okay. And sir can you throw some more light on the global market how is it different from the last two quarters, especially US and Europe?
- Avinash Bhargava:** If we will talk about the international market, China has overtaken India to become the top buyer of Egyptian cotton in 2022. Extra-long fibre and smooth yarn feature is available with Egyptian Yarn. China has overtaken India and there is China's yarn export to India doubled in the first quarter and it is around \$349 million and in terms of capacity, it is up by 33%. Bangladesh's export garment growth in May is 8%. If we talk about Turkey which is a major player in the case of apparel, Turkey's export apparel declined by 6.5% in January to April, but ICRA predicts that decline in revenue of Indian fashion retailers in FY24.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now had the conference over to the management for their closing comments.

Avinash Bhargava: Thank you so much for your time and patience. Thank you from Mr. Surender Gupta also. He is the Company Secretary of RSWM Limited. I think it was the last question from your side.

Moderator: Yes, sir.

Moderator: Thank you, sir. Ladies and gentlemen, on behalf of RSWM Limited that concludes this conference call. We thank you for joining us and you may now disconnect your lines. Thank you.

(This document has been edited for readability purposes.)

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