

RSWM/SECTT/2022
February 15, 2022

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
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Sub: Outcome of Earnings Investors Conference Call on 08 February, 2022.

Dear Sir,

Please refer to our Earnings Investors Conference Call scheduled on 08/02/2022 intimated vide our letter dated 03/02/2022.

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of the said Investors 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
AVP – LEGAL & COMPANY SECRETARY
FCS-2615

(Formerly Rajasthan Spinning & Weaving Mills Limited)

Corporate Office :
Bhilwara Towers, A-12, Sector-1
Noida - 201 301 (NCR-Delhi), India
Tel: +91-120-4390300 (EPABX)
Fax: +91-120-4277841
Website: www.rswm.in
GSTIN: 09AAACR9700M1Z1

Regd. Office:
Kharigram, Post Office Gulabpura - 311 021
Distt. Bhilwara, (Rajasthan), India
Tel: +91-1483-223144 to 223150, 223478
Fax: +91-1483-223361, 223479
Website: www.lnjbhilwara.com
GSTIN: 08AAACR9700M1Z3

Corporate Identification Number: L17115RJ1960PLC008216



“RSWM Limited Q3 & 9M FY22 Earnings Conference Call”

February 08, 2022

MANAGEMENT:

MR. AVINASH BHARGAVA

CHIEF FINANCIAL OFFICER (RSWM LTD)

RSWM Limited - Q3 & 9M FY22 Earnings Conference Call

February 08, 2022

Moderator: Ladies and gentlemen, good day and welcome to the RSWM Limited Q3 and 9M December Ended FY22 Earnings Conference Call. We have with us today from the management Mr. Avinash Bhargava, Chief Financial Officer. 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 conference call. Today’s discussion may be forward looking in nature based on management’s current beliefs and expectations. It must be viewed in conjunction with the risk that our business phases that could cause our future results. Performance or achievements to differ significantly from what may be expressed or implying by such forward looking statements. I now hand the conference over to Mr. Avinash Bhargava, for opening remarks. Thank you and over to you sir.

Avinash Bhargava: Thank you so much. Thank you, good afternoon and warm welcome to all our participants in this Q3 FY22 and Nine Months Earning Call. I hope you had a chance to look at our investor’s presentation, which is uploaded on the stock exchange and on our website. As you know, we are the manufacturer of yarn and denims, yarn segments include synthetic, mélange, polyester and viscose yarn, contributes 80% to our revenue, denim which contributes 20% includes both spinning and fabric manufacturing. I would like to break our opening remarks in three parts to start with key financial highlights for the quarter and nine months deep overview on sector and our segments.

During the quarter, we did about INR 1,001 crore Indian rupees of top line in Q3 FY22 which is about 39% up on Y-o-Y bases. Our domestic turnover has increased to 25% on year-to-year basis as compared to Q3FY21. Our exports turnover has increased by 71% on year-to-year basis as compared to Q3FY21. EBITDA stands at INR 122 crores which is 22% higher as compared to the same quarter last year. Our PAT for the quarter stands at 50 crores up, 56% higher as compared to the same quarter last year.

Coming to nine months performance our total sales stands at INR 2,696 crores up by 81% on a year-to-year basis. Exports recorded sales of nine months INR 1,006 crores up, 111% on year-to-year basis. EBITDA for nine months goes from INR 80 crores to INR 322 crores, PAT for nine months stands at INR 130 crores turned positive on year-to-year basis. Strong demand witness during the quarter it mainly on an account of resumption of offices, shopping complexes, festive and wedding season due to upliftment of lockdown restriction, strong realization,

demand in all segments has helped us in posting strong bottom line growth. Strong cash flow generation has put RSWM in very comfortable position in terms of liquidity, Management is exploring inorganic long term growth opportunities which will help RSWM to capture market opportunities by widening product offerings. Apart from this organic long term growth opportunities within RSWM. Net debt to equity stands at 1.03 as of 31st December 2021. As we have announced in past quarters, company is investing around INR 330 crores in expansion of denim, fabric manufacturing capacity, cotton mélange yarn manufacturing capacity and modernization/ balancing equipment across all units are processing progressing well. And will start contributing from next financial year.

In our Q2FY22 earnings call, we have announced entering into knit fabric business with initial investment of INR 80 crores in first phase which is progressing well. All the above investments in denims, cotton yarns, knits are expected to increase our top line incremental by INR 500 to INR 600 crores in next financial year. Now, coming to yarn business, textile industry has seen significant rebound and growth in both and market domestic as well as global market after the outbreak of COVID-19. The sector has utilized the opportunity in best possible manner which can be validated by the increase in business and exports. Textile exports in first nine months is up by 31% which is nearly about \$30 billion as compared to \$21 billion in financial year 2021. With lifting of lockdown, the company has worked in direction to serve its stakeholder and will continue to strive growth in future also.

Huge demand has also resulted in excessive pressure on logistics, rising freights, charges due to shortage of container, higher coal prices and cotton prices are impacting the sector margin. Continued support from government via various schemes introduction has put sector in better states. China plus one strategy has brought focus in Indian market globally. The importers have started looking for different suppliers after US passed its law related to ban of imports from Xinjiang region, which accounts for 20% of the globally produced cotton. Which has helped Indian suppliers to come into picture. We see far more opportunities for yarn in times to come.

As far as denim business is concerned with strong demand witness in quarter three of FY2022 across all markets. We are progressing well in denim during the quarter. We participated in Gartex, our first offline exhibition after a gap of almost two years due to COVID. The response was positive. We witnessed more than 100 customers over the three days. Our sales with brands are progressing well. And we have now tied up with several brands like Levi's, Lee Cooper, Killer, Spykar, H&M, Mufti and Benetton. We continue to touch milestone sales numbers in denim business despite of challenges to deliver due to capacity constraints. Our order book on denim side continues to remain healthy. Today, our JMD was also to be with me, but some personal reason he has left the office. Therefore, I would like to open floor for questions and I will answer the session. Thank you so much.

Moderator:

Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Prerna Jhunjunwala from B&K Securities. Please go ahead.

Perna Jhunjunwala: Just wanted to understand, what are the sustainable margins that you see in this business because as a company, our margins have not increased like other cotton yarn companies. These are normalized level of margins. So how do you see these margins behaving going forward in light of organic current capacities and when the new capacities come in?

Avinash Bhargava: Actually, Perna you will see that the contributions of 2/30 PVs and 1/30 cotton if we will take example of two, 2/30 PV highest contribution was INR 93 per kg and which has come down to INR 89 because of increase in prices of polyester, recent increase in prices. And as far as cotton is concerned the contribution has touched around INR 108 to INR 110 per kg, now it is INR 80 to INR 85 but, yes as you know that every increase, will settle & it cannot be permanent. Because the cotton prices has gone up around the INR 71,000 if we take average of RSWM, otherwise on quality-to-quality basis this has touched to even at INR 77,000 per candy. So, we hope that this price will come down and we will be able to handle the situation of price increase in cotton.

Perna Jhunjunwala: Okay. But do you think sir there is a downside risk on our margin or we should really see an upward trajectory in our margins given that you are looking forward to start the knit business, your denim business is also gaining traction so margin improvement will happen there also, so where is the mix improvement that is happening and there can be improvement because of better product mix going forward, on sustainable basis?

Avinash Bhargava: Actually, if you will see this, are you talking about denim or?

Perna Jhunjunwala: I am taking company as a whole.

Avinash Bhargava: Company as a whole, the margins has come down to some extent but the prices will settle. The change of product mix in denim as well as in yarn also will help us to maintain this profitability company as a whole.

Perna Jhunjunwala: Okay. And sir does this Mayur Suiting sales revenue the EBITDA form a part of this quarter numbers?

Avinash Bhargava: No, actually we have closed this Mayur brand. On 31st August we had a transaction between Mayur and Donear. It is over on 31st of December and every penny of that sale has been accounted for. There are some losses in this quarter also, Q3 because of employee liability, employee salaries, employee liabilities, those are being transferred to our other businesses like Knits, other PV units. And now executing few of our orders which were in the name of RSWM and not in the name of Mayur. Everything will be over from our side as far as Mayur brand is concerned, by 31st of March 2022.

Perna Jhunjunwala: Okay. So, then we should expect fabric business should also report EBIT positive numbers from first quarter FY23 then correct?

- Avinash Bhargava:** Yes, from first quarter FY 2022-23 this should be positive from fabric side.
- Perna Jhunjunwala:** Okay, even fourth quarter there should be some loss, minimal loss, but there should be some loss right?
- Avinash Bhargava:** Marginal loss may be there, but I don't think that there would be any loss as far as sale of PV fabric is concerned.
- Perna Jhunjunwala:** Denim is EBITDA positive?
- Avinash Bhargava:** Let me explain you the denim business also, treating this denim fabric apart cannot earn profit if you are not supported by denim spinning. So, we are doing balancing, recently if you look at the order position of Q3, we had sold around 80 million meter in Q3 and the profit margins, profitability of denim also has been improved. It will be difficult to transfer this price increase of cotton to fabric buyers for garments, but yes, this fabric denim business will give us returns in Q4 also and then from Q1 of 2022-23.
- Moderator:** Thank you. The next question is from the line of Samukh Jain from Interglobe. Please go ahead.
- Samukh Jain:** I wanted to understand the EBITDA margin for yarn and cotton business & denim business margin and PV yarn business separately EBITDA margin also?
- Avinash Bhargava:** EBITDA margin of PV is around 12% to 13% and if you will talk about this denim yarn business it is around 15% to 16%.
- Samukh Jain:** And cotton business?
- Avinash Bhargava:** Cotton businesses is same 15% to 16% EBITDA margin. Average is around 12%. RSWM have variety of product basket. So, we can talk about average only.
- Samukh Jain:** So, if I exclude the other income, your average EBITDA margin is coming approximately to around 11.5.
- Avinash Bhargava:** Yes, 11.5%, 11.9%
- Samukh Jain:** Correct. Because, if you have a look at the other players in the industry, like say suppose Nitin Spinners is talking about an EBITDA margin of 20%, 25% kind of, the other players are also giving a minimum EBITDA margin of 15%, that is why I was at 11.5% to 12.5% EBITDA.
- Avinash Bhargava:** Actually, you cannot compare cotton players with RSWM because they are not producing polyester viscose yarn or there are some into fabric, some are not into mélange yarn also.

Samukh Jain: But still EBITDA margin of around 11.5% to 12% don't you think it's on a lower side and is there a plan to increase this?

Avinash Bhargava: If you will see for this year this is because there is a loss in fabric also.

Samukh Jain: So, can you tell the exact figure what is the loss which is there in the fabric division, maybe because of onetime loss which is there?

Avinash Bhargava: Actually, it has minus PBIT of around 14 crores.

Samukh Jain: Okay. So, these 14 crores would not be there next quarter onwards, right?

Avinash Bhargava: Yes, it will not be there from the next quarter.

Samukh Jain: And what is the reasonable EBITDA margin we should assume, if we want to do a projection for RSWM maybe for next financial year. What is a fair bit of assumption that we should take EBITDA margin?

Avinash Bhargava: EBITDA margin of RSWM should be somewhere around 13% to 14% in next year. We will take the projections of this year, our annual business plan and product mix. You can think of about 13% to 14% average.

Samukh Jain: Okay. And what is the tentative CAPEX, when will it start giving results like when can we expect this?

Avinash Bhargava: The ongoing CAPEX which is of about INR 330 crores we'll start giving the moderate results from 1st of July. These will start the production in first quarter only. But, initial problem, machines settling down can take one or two months or even Q1 also and you can hope that your company can start operations of these new capex in full swing in all these ongoing projects from 1st of July.

Samukh Jain: Okay. So, the turnover due to CAPEX you said somewhere between INR 500 crore to INR 600 crore, is on an annualized basis or for nine months we can expect the figure to be achieved?

Avinash Bhargava: Yes, on an annual basis. We will optimize this figure and we will say that this will start from 1st of July you can hope around INR 300 to INR 400 crore in next financial year.

Samukh Jain: Okay. And sir if you can just give us a little bit of idea on the export side also, how's the demand and what is the kind of projections that we can expect on the export side?

Avinash Bhargava: Actually, you will see the export numbers in this last quarter of Q3 of 2021-2022 these have been improved and we hope that this will continue in Q1 also. As far as denim is concerned, we have the full position till April or May and as far as yarn is concerned, we have two, three

months order in hand as of now. So, we don't feel that there would be any set back in PV yarn or cotton yarn or denim, any business. From next year around May or so we will start the production of knitted fabric also.

Samukh Jain: Sir, one last question just wanted to understand the kind of inventory that you would be carrying, cotton inventory what is typically inventories level?

Avinash Bhargava: Cotton inventory and all have come down drastically in terms of quantity but value wise it has been increased because of price inflation.

Samukh Jain: So, approximately like how many months or how many days of inventory are you carrying sir?

Avinash Bhargava: Normally we keep the inventory of one or one and a half months at max. Putting together all whether synthetic yarn or whether this cotton yarn.

Samukh Jain: Okay. Sir, the kind of momentum that we've seen in the cotton yarn prices, can we expect something similar in PV yarn as well?

Avinash Bhargava: Actually, PV yarn has also margins have become thin because of this increase in polyester prices. But as far as market of PV is concerned it will be better in Q4 because of very high price increase in this quarter Q3, in case of cotton. So, you can expect better market of PV also because the demand of cotton will be compensated by the PV yarn to some extent.

Moderator: Thank you. The next question is from the line of Vikram Suryavanshi from Phillip Capital. Please go ahead.

Vikram Suryavanshi: Sir. I just wanted to know how much within yarn how much is our cotton yarn percentage total yarn segment?

Avinash Bhargava: Actually, if we will breakup this entire business of RSWM this is about 60% of PV yarn and rest of the 40% is mélange yarn, denim and denim fabric. In denim itself, yarn is 80% and then denim fabric is 20%.

Vikram Suryavanshi: So, cotton basically we use for count only we don't do cotton fine yarn basically.

Avinash Bhargava: Yes, for analysis it is single 30s and double 30s in cotton for average count.

Vikram Suryavanshi: Understood, okay. And in terms of the expansion what we are doing for knitting, how many machines we are adding and what kind of turnover we are expecting in knitting capacity addition?

Avinash Bhargava: This is 400 metric tonne per month the capacity of knitting fabric is considered.

Vikram Suryavanshi: And in case of export incentives what we get, what is typically percentage of FOB or export value, or export incentive we get on weighted average basis and are we getting any scripts or any, because some of the textile companies result what we've seen they have done some impact of this sale of this scrap side lower value than what they have realized. So, I just wanted to get clarity on that front for us also, what is overall net export incentive we get and any impact on these incentive amount? I hope you're you have got my question or should I repeat?

Avinash Bhargava: Please repeat.

Vikram Suryavanshi: One question was regarding our export incentive, how much export incentive we get, that was one question. And is there any impact of the lower sales in this case, because some of the textile companies result, we have seen they have taken a hit because of the realization is much lower by selling the scrap. So, just wanted to get clarity on that front from your side.

Avinash Bhargava: Actually, in RSWM case only INR 21 crore RODTP is in hand and we have accounted for price discounting in our balance sheet.

Vikram Suryavanshi: And how much was export incentive.

Avinash Bhargava: So, there should not be any kind of loss as far as this export incentives are concerned.

Vikram Suryavanshi: Got it. So, on percentage basis or on absolute term, what was the number like on FOB value how much net impact or net export incentive we get or if you can share what was the amount in this quarter or nine months in terms of export incentive?

Avinash Bhargava: Actually, it varies from product-to-product and it is in terms of percentage only. And it will be difficult to calculate on phone rather I can tell you the percentage product wise, which is available to RSWM. I can tell you about percentage only.

Vikram Suryavanshi: You can share one or two main products just percentage that in fine.

Avinash Bhargava: On synthetic yarns the rate of RODTP is 2.5% with value cap of INR 1.80 per kg. And in case of cotton yarn, the percentage is 3.80% with the value cap of INR 11.40 with value cap cotton blended yarns, this is INR 3.80 with value cap of INR 11.40, synthetic fabric which we are not doing now accept this pending order of this fabric business and denim 4.30% with value cap of INR 3.40 per square meter.

Moderator: Thank you. The next question is from the line of Siddarth Mohta from Principal India. Please go ahead.

Siddarth Mohta: Sir, as you correctly mentioned that there has been increase in polyester and the cotton prices. So, the current prices of PV dyed yarn or the cotton grey yarn, does it reflect the increase in

the price which was seen in polyester and cotton or still we are in a process of taking some price increase in the month of January and February?

Avinash Bhargava: Actually, we do try to transfer this price increase to the customer. But customers are not ready to take this price increase. As far as export is concerned challenges are there in passing the increase in cotton prices, customers are asking for lower prices as they are unable to pass on to the fabric. In case of export is \$0.25 to \$0.30 and in case of domestic sales, it is around INR 20, INR 25 a kilo.

Siddarth Mohta: Okay. Sir, this is the extent of price increase that we have to take if you can explain it?

Avinash Bhargava: Pardon, I could not understand your question.

Siddarth Mohta: Sir you said you that INR 25 and \$0.25. So, what this number indicate?

Avinash Bhargava: Actually, there is a gap of this \$0.20 to \$0.25 a kilo, if the price increase of cotton is there, we could not pass this \$0.20 to \$0.25 a kilo in case of export and INR 20 to INR 25 in case of domestic yarn sale, but yes, when new order we book gradually this gap is reduced, let's say it will be reduced to say INR 15 to INR 20, then INR 10 to INR 15 and over the period of time we will recover from the customer. So, over a period of time, we will be able to recover from the customer.

Siddarth Mohta: Sir, this INR 25 the price gap sir that is filled needs to be accounts for, this is in our cotton yarn or this is in our PV yarn?

Avinash Bhargava: In PV yarn you can say INR 10, INR 15 and in cotton yarn you can say INR 20, INR 25. Everything is not permanent; this price increase of cotton will also settle down and this price it will continue. We have to have pass this price increase to the customer no option.

Siddarth Mohta: Okay. And sir you have mentioned that demand for PV yarn it continues to be quite good and uniform season is also at the peak. So, in case of PV yarn which comprises maximum percentage of our yarn. So, it will be bit easy to take the price increase within PV segment?

Avinash Bhargava: Within PV segment also we will be able to take this price increase from the customer in this uniform season also. I don't think that there would be any challenge, we would not be able to recover this price increase immediately but yes, within a month or two we will be able to.

Siddarth Mohta: Okay. Sir, in the earlier comment you have mentioned that in quarter three there was a loss of INR 14 crore in fabric division and that was a mainly.

Avinash Bhargava: No. Not in quarter three it was total inclusive of denim fabric and fabric segment both.

Siddarth Mohta: Okay, fabric segment but this amount it was for quarter three only?

- Avinash Bhargava:** Not for quarter three.
- Siddarth Mohta:** Okay. So, it is nine month something like that sir?
- Avinash Bhargava:** Yes.
- Siddarth Mohta:** And if I could understand, you said that in quarter four the loss is not going to happen because Mayur thing has been completed, whatever order it was supposed to be executed that has been done. So, we will be only left with the denim segment and demand for the denim appears to be quite good. So, quarter four, it would be a positive operating profit as far as?
- Avinash Bhargava:** Siddarth let me clear you one thing, actually we have some fabric in place of fabric division which has to be exported which was manufactured and these export orders have to be executed, but there would be no loss on these exports and these will be exported in the name of RSWM, not in the name of Mayur.
- Siddarth Mohta:** Sir, so if I have to take it forward starting like April 2022 because the financial year 2023. Sir, what can be the normalized margin in our denim segment provided we have done a lot of good work, we have bought some new clients, new orders. So, what can be the sustainable margin in our denim segment in FY23 sir?
- Avinash Bhargava:** Actually, if you will see the denim prices the average price realization in case of yarn was INR 221 in Q3 and if we will consider this denim yarn independently this will be a profitable kind of business and then if we will consider this denim fabric only, the margins would be lower in case of denim fabric. But yes, overall as we are producing the denim yarn for our own captive consumption the margins would be better than 2020-2021 or 2021-2022, in the year 2022-2023. Margins would be better because we would be starting this captive production of 20,000 spindles at denim plant and then it would be able to cater our own needs from our own plant for this denim expansion.
- Siddarth Mohta:** Sir so this, 20,000 captive spindle it starts for denim fabric, then the entire denim fabric yarn deployment will be covered by our in-house production of denim yarn?
- Avinash Bhargava:** Yes. If there would be some product mix kind of changes so, we will buy the yarn from market also, if it is cheaper for the denim business then we will buy from market, if the cost of our own product is higher than we will not supply to our denim fabric plant, as these are separate business centers.
- Siddarth Mohta:** Then in that particular case if I have to combine denim yarn and denim fabric and with this new capacity coming and outlook it is looking quite good, can we assume sir roughly 10% to 11% of EBITDA or operating margin on the entire denim segment?
- Avinash Bhargava:** It will be better than that.

Siddarth Mohta: And sir in terms of cost control if you can just help especially in case of employee cost, if I have to compare employee cost of RSWM, even though it has decreased in the last two to three years, but if I have to compare it with some of the very efficient industry player, we are still on a little higher side. So, what are the steps been taken to reduce the employee cost?

Avinash Bhargava: Let me explain you Siddarth this thing in case of RSWM. RSWM is not like other players in the market, because RSWM has setup since 60 years, it cannot be curtailed in a day or in a year. So, as far as the employee cost is concerned for higher management kind of people, we are not recruiting anyone who is at higher post. These are being elevated internally we have the program of employee elevation, succession planning within the company. This has happened in this last one or two years you can say every employee at senior level is being promoted internally. We are doing kind of manpower studies also within this company like in PV, in cotton and all. We are doing benchmarking for various cost, we are doing benchmarking with NITRA and accordingly we are trying to make our annual business plans with respect to the NITRA benchmarks and then according to that workload, we are optimizing our work force. On worker side, we are doing NITRA kind of analysis and on the staff side, we are trying to control this manpower cost through internal elevations or the person being retired from RSWM, no person is being recruited and this is being addressed through job enlargement and job enrichment kind of thing.

Siddarth Mohta: So, sir one can also assume that this increase the capacity which is coming in mélange yarn and in the denim fabric, so it will lead to a very.

Avinash Bhargava: Yes, one more thing regarding employee cost, which just came into my mind, we are doing this mélange business expansion at Kharigram. We have not recruited any senior person or any managerial person for this business, this will be run by production related recruitment only. So, we will recruit supervisors only, and no additional hands in commercial or in senior technical person will be taken. Now, you can take the next question please.

Moderator: Thank you. The next question is from the line of Krishnakumar from Lion Hill Capital. Please go ahead.

Krishnakumar: Sir, you have given us some perspective on the price moments or in terms of the different types of yarns, etc. Can you give us, would you be able to give us some idea how the spread across the quarters?

Avinash Bhargava: How the?

Krishnakumar: How the average spread, spread between the yarn and the cotton has moved in terms of cotton or the raw material in PV grey yarn, cotton grey, etc. Some spreads trend in the last two, three quarters?

Avinash Bhargava: I can give you that price band from financial year 2019-2020, 2021 and then present scenario of this PV grey yarn, cotton yarn, PV dyed yarn, mélange yarn, denim yarn and then raw material prices. I can give you the brief of that. In financial year 2019 The PV grey yarn price were INR 171 average price was INR 171 per kg and then these were reduced to INR 157 in financial year 2020, which was a loss making year because of this COVID and all and then in financial year 2021 it was INR 150 PV grey, it was a bad year for PV grey yarn and now present scenario is it is INR 208 per kg PV grey yarn. So, you can say that 33% price increase is there in PV grey yarn so you can witness within our company that the units which are producing this PV grey yarn are doing well like our Rishabhdev unit, Banswara unit both unit. And then if you will talk about cotton.

Krishnakumar: So, this realization is there in the slide #9, I'm asking.

Avinash Bhargava: It has been increased by 33%.

Krishnakumar: If you can give us a spread, spread between the selling price of INR 208/ the input cost can you give the spread sir? In current year sir?

Avinash Bhargava: The industry spread is around INR 80 to INR 85. If you will take average count of INR 230 PV.

Krishnakumar: This cotton yarn, cotton grey?

Avinash Bhargava: Then cotton yarn in financial year 2019 the price was INR 220 per kg then we will go directly to financial year 2021 it was INR 209 and now the price is INR 330 per kg. So, you can say around 50% increase in cotton yarn PV dyed it was a spread from year to year about INR 119 or INR 120 you can say in financial year 2019 and now it is INR 216. So, you can say around 90% increase in PV dyed. And in case of mélange.

Krishnakumar: Sir we are getting this pricing can you just give the spread around? And on mélange yarn?

Avinash Bhargava: The industry spread in case of cotton is around INR 90 to INR 100 and in case of PV it is INR 80 to INR 85. In PV we have considered this PV grey and dyed both, average price increase or average contribution per kg is around INR 85. In case of mélange yarn, it is spread around INR 120.

Krishnakumar: Okay. Sir compared to first quarter now how is the spread sir, if you look at the first half of the year till now, can you give some perspective how the spread has moved sir in the third quarter?

Avinash Bhargava: Because of this price increased, I am talking about this present contribution in last quarter, but before that the spread was better than this Q3.

Krishnakumar: Okay. Sir going forward in the Q4 and Q1 given the current cotton prices and synthetic prices, how do you see the spread sir, do you think it's maintaining here or going down?

Avinash Bhargava: Actually, as of now, it is becoming difficult for us to transfer the prices, whole price increase to the customer. But yes, we hope that it will settle down you can say within a month or so, it will be settled down.

Krishnakumar: And on denim sir the INR 221 is pricing in the third quarter, how is the spread sir in here contribution spread?

Avinash Bhargava: In case of Denim yarn or denim fabric?

Krishnakumar: Denim fabric sir.

Avinash Bhargava: Denim fabric it is being sold at around, I will tell you produce wise just give me one minute. So, in exports the price of this denim fabric is around INR 230 to INR 275 per meter and in domestic more or less same. Domestic prices are better as of now.

Krishnakumar: Rs.235 sir? And the spread sir?

Avinash Bhargava: Spread depends on the kind of product mix.

Krishnakumar: Any range you can give sir?

Avinash Bhargava: It varies from product to product.

Moderator: Thank you. The next question is from the line of Abhilasha Satale from Mehta Investments. Please go ahead.

Abhilasha Satale: Sir, basically, I want to ask that you have mentioned that you will need to take price increase in the range of INR 10 to INR 15 to pass on the entire PV raw material prices what we have seen. So, after passing on this INR 10 to INR 15 probably over Q4 and Q1 of the next year, we are talking of maintaining the margin of this 12% to 13%. Is that right reading?

Avinash Bhargava: You will see about this profit margin in this last quarter historically this last quarter remains very good from the textile perspective. So, there are many reasons because of which the last quarter remains good then other quarters of the year first reason is the selling pressure on every marketing person they try to liquidate their stock, they try to push their stock in the market. So, any kind of valuation losses and all are transferred to the market. You will see this stock valuation cost or market price whichever is lower. So, the stocks are around 5,000 metric tonnes, in case of yarn business these are 5,000 metric tonnes and it will be reduced to let us say 3,500 metric tonne or 4,000 metric tonnes, the valuation gains will be there in last quarter four. We will be able to maintain that margin. Otherwise also as RSWM policy we used to take this contingency on the stock available on a cutoff date and when we will sell it in last quarter we will push this last quarter for sale, these kinds of contingencies which will be released in last quarter and we hope that the profit margins will be better than this Q3 in Q4.

Abhilasha Satale: Okay. And sir if we just take a little bit longer perspective say FY23 then probably after passing on this INR 10 to INR 15 cost price increase, the margins are sustainable at ETC price.

Avinash Bhargava: You know that price increase cannot be permanent, in fact the price increase cannot be permanent for a manufacturer. It has to have transfer through the customer only. So, in our case we were a customer and then we will pass on to the consumer. So, it will be transferred because, demand momentum is very good in domestic market as well as in export market.

Recently it has been noticed that China also is importing cotton yarn from India and then this Vietnam, Cambodia, Bangladesh all are importing the cotton from India, this will add to the profitability of Indian manufacturers and as cotton yarn manufacturer, we also hope that we will gain about through it.

Abhilasha Satale: Right. Sir, you mentioned INR 80, INR 85 are the current spread, can you give the same number for a FY19 and FY21. How much was the increase in spread just to take a perspective?

Avinash Bhargava: We can give you on a separate call, but as of now these data are not available with me. It would be wrong, if I will tell any figure to you.

Abhilasha Satale: That's fine sir I'll take it separately, that's not an issue. Thank you. My second question is how much is the volume increase during the quarter on year-on-year basis like this, how much is because of the price increase, revenue what we have posted around the 38%, 39% increase or how much is contributed through volume increase, PV yarn you can say in terms of export or domestic both?

Avinash Bhargava: More or less same. If we will compare on quarter-to-quarter basis.

Abhilasha Satale: Okay. And year-on-year?

Avinash Bhargava: It is all because of value addition in the market because at the time also in Q3 of 2021 RSWM all units were doing production at their fullest capability and as of now, they are doing the production at fullest capacity. So, there may be gain because of this count change and all, because of count change the production may be higher, if the count is finer then production may be lower. Otherwise all the units of RSWM are doing production at fullest capacity. So, we cannot say, that in terms of quantity this production of RSWM has been increased or in terms of selling volumes it has been increased we cannot say that.

Abhilasha Satale: Right sir. Sir and the last one is, how do you see our debt moving because we are increasing INR 330 crores of CAPEX and we have generated good cash flows during the year. So, what is our unit strategy on debt reduction?

Avinash Bhargava: It is a very good question the debt is going to be increased with few CAPEX plans in pipeline, but these financial ratios and all these will be maintained.

Abhilasha Satale: Okay. Sir can you just throw some number like, because in this quarter the interest cost has gone down. So, going forward how much, by when you will capitalize this?

Avinash Bhargava: If you will compare the figure of last quarter outstanding term loan I will tell you the figures, on 31st of December this was INR 516, INR 517 you can say, INR 517 crore term loan and if you will add working capital also it was about INR 1,000 crores only. With this increased volume of production working capital utilization will also be increased. Term loan will also be increased when we will avail these term loan for these expansion sites for mélange, for denim, and for knitting. This term loan will be increased further. And working capital utilization will also be increased after the start of new project.

Abhilasha Satale: Okay. So how much like another INR 100, INR 150 crores of debt increase we can see next year in FY23, is it a right assumption?

Avinash Bhargava: Around INR 200 crore, INR 225 crore will be increased. With these repayments INR 330 crore, out of INR 330 crore we will repay around INR 150 crore, INR 175 crore will be added next year.

Moderator: Thank you. Ladies and gentlemen, this was the last question for today. With that we conclude today's conference call. On behalf of RSWM Limited, thank you for joining us. And you may now disconnect your line. Thank you.

(This document has been edited for readability purposes.)

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

Registered Office: Kharigram, P.B No.28, P.O Gulabpura- 311 021, Distt. Bhilwara Rajasthan

Website: <https://www.rswm.in>

CIN: L17115RJ1960PLC008216
