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August 16, 2022

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Sub: Transcript of Investors Conference Call held on 10th August, 2022.

Dear Sir,

Please refer to our Investors Conference Call scheduled on 10/08/2022 intimated vide our letter dated 01/08/2022.

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
VICE PRESIDENT – LEGAL & COMPANY SECRETARY
FCS-2615

rswm.investor@lnjbhilwara.com

(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
Q1FY23 Earnings Conference Call Transcript
August 10, 2022

MANAGEMENT:

Mr. Avinash Bhargava: Chief Financial Officer

Mr. Puneet Anand: Chief Strategy Officer

Mr. Surender Gupta: VP - Legal and Company Secretary

RSWM Limited – Q1FY23 Earnings Conference Call

Moderator:

Good day, ladies and gentlemen, and a very warm welcome to the RSWM Limited Q1FY23 Earnings Conference Call. We have with us today from the management, Mr. Avinash Bhargava, Chief Financial Officer; Mr. Puneet Anand, CSO, Mr. Surender Gupta, Vice President - 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 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 risks that our business faces that could cause future results, performance or achievements to differ significantly from what may be expressed in 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 and good evening and a very warm welcome to everyone on our Q1FY2023 earnings conference call. We have uploaded the presentation of our results on stock exchanges and the company website and I hope everyone had an opportunity to go through the same. Moving forward Q1FY23 sales reported for the quarter stood at ₹1,024 Cr. up by 38% on YoY basis mainly contributed by higher domestic sales. Other income for the quarter stands at ₹31.4 Cr. gross profit up by 44.5% on YoY due to resource optimization. EBITDA excluding other incomes stood at ₹109 Cr. up by 32%. EBITDA margin contracted by 30 bps on account of higher input costs during the quarter. PAT increases to ₹67 Cr. up by 81.1% on YoY basis. Going forward Q1FY23 is generally treated as a lean quarter. However, we could perform during the quarter given the challenges of increased raw material cost, since we could pass on the increased input costs to the end consumer without significantly impacting our margins. We saw a peak in cotton prices June and July. The impact which we will see in the short term due to the purchase of raw materials at higher prices. Currently, the drop of almost 25% to 30% in cotton prices will positively affect the industry in the second half of the year when these benefits of reduced purchase cost will be consumed. We see this situation normalizing post the arrival of the new cotton crop on the back of a good monsoon season. In addition, in India, 20% to 25% area would expand in 10 cotton-growing states in the country to cover cotton cultivation in 2022-23 season.

About the demand scenario, we are optimistic about the domestic demand scenario with a slight plus or minus and we believe it will remain so on the back of China plus one strategy, improving domestic demand such as seasonal school uniforms requirements increased the demand for yarn while wedding season increased footfalls on the retail end. There are some headwinds on the export side because of fear of recession and geopolitical issues globally in major countries. However, RSWM through decent quarter numbers has demonstrated solid

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execution of its planning and its inherent strong business model enabled facing several challenges without a fall in profits. The strong demand, high realization and better product mix help us in posting the best ever results in FY23. We can say that this is the best first quarter of last 3-4 years. Coming to our segment results - first is the yarn division. Higher competitions and constant pricing pressures are currently influencing demand for cotton and PC Mélange. Mills, predominantly producing cotton and its blends have shifted the cotton to other blends such as PV, polyester cotton, polyester 100%, and viscose 100%. Fabric exporters, including those of uniform fabrics, performed relatively better. We believe this situation is short lived. Our margins on 100% cotton can be affected for the short term because of above mentioned season. Our total 100% cotton business is 1/3 of our total revenue, rest will remain the same. During the quarter, yarn division sales stood at ₹887 Cr. up by 29% on YoY basis and it saw a drop of 8.2% sequentially. EBITDA for the yarn division contracted by about 80 bps and about 330 bps respectively, on YoY and on QoQ basis.

Going forward about denim Q1FY23 - Denim sales touched about 75 lakh meters amounting to ₹220 Cr despite adverse market conditions. We could manage domestic collection overdue in a healthy range of 4%. Domestic space remained disturbed due to expected price corrections on the back of softening of cotton prices. We could hold the momentum during the quarter and in the long term, we believe demand to return on the back of the festive seasons. Our focused on high-value specialty yarn businesses like dyed and Mélange yarn is increasing which will help us in sustained margins.

The next item is Knits as we announced last year, our initial investment in the Knits business commenced commercial production on the 1st of July 2022 based on our initial interaction with exporters and domestic brands, we are seeing good progress and good demand in knit business.

About projects, in hands, 30K spindles yarn capacity at Gulabpura. Denim fabric capacity at Banswara undertaken during last year has also started and we expect these will help in future growth in the quarter to come. The commercial production of these two plants has been started w.e.f. the 1st of July itself. I will sum up by saying that currently looking at a global situation like fear of recession and higher cotton prices, demand shift will happen in the coming quarters or so, but it will pick up soon as the prices will get corrected. Domestic demand continues to be strong. Our view for the long term remains optimistic as we have seen a shift happening and India being the preferred and reliable source might see an upsurge. Also, the government is providing the required support via various schemes. Thank you so much. Now question answer session may be taken up.

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- Moderator:** Thank you very much, ladies and gentlemen. We will now begin the questions and answer session. The first question is from the line of A M Lodha from Sanmati Consultants. Please go ahead.
- A M Lodha:** I require two clarifications. One is about expansion. As per the presentation, you have completed an expansion of ₹400 Cr on full capacity utilization. It will give us a sale of ₹700 Cr is my understanding right
- Avinash Bhargava:** Yes.
- A M Lodha:** Ok. My second question again, regarding the expansion of ₹ 315 Cr., we have taken will be completed by FY24. How much turnover this can give sir, estimated?
- Avinash Bhargava:** It will be around ₹500 Cr
- A M Lodha:** Ok Sir, my third question is relating to last board meeting, board decided to consider the right issue at the appropriate time of ₹200 Cr plus. Our contention view is when the companies earning is good. Then they need a ₹200 Cr way of raising the equity, raising the ₹200 Cr. by way of the right issue is very detrimental to the minority shareholder as you must have observed that your one of the biggest holders Patel family, holding ~12 lakhs share in your company. They have already disposed of 75,000 shares in the open market on the 4th of August, 2022 as per the filing with stock exchange. What we think, based on our experience and we have a holding in so many companies, the companies those having the huge exports and one of my holding company is Meghmani Organic. They are having 80% exports, by the blessings of God your company is also having export or more than one ₹ 1,200 Cr or approximately ₹ 1,000 Cr plus exports, so what Meghmani Organic has done is they've taken external commercial borrowing at the rate of 1 ½% to 2% without hedging the position because your receivable will automatically help against your borrowing, so there's ₹ 200 Cr or ₹ 300 Cr whatever you require for the expansion. That can be our request is there that can be taken in external commercial borrowing instead of proposing the right issue, which is not only detrimental to share price plus also investors like us will have to pay additional investment money in the stock. Please kindly put some light on it.
- Avinash Bhargava:** As far as raising the funds through the right issue. We have with us Mr. Puneet Anand, he's our Chief Strategy Officer. He will throw some light on this. I think he will be able to satisfy your query. And as ECB is concerned, we take your suggestion. And we'll see how it can be worked out.

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- Puneet Anand:** So basically, the right issue is not for the expansion. It is more to pay off the high debt which we have right now on our balance sheet. The company has a significant growth plan it involves substantial capital expenditure and enhances working requirements. The option which you have put right now we will be utilizing that option too for our expansion plans. But we believe that the right issue will bring and strengthen our company finances and balance sheet for sustainable growth and also encountering any cyclic quality. The management has recommended and board had considered the proposed right issue for this purpose, and after giving due consideration with an opportunity to all the shareholders so that everyone can participate in the potential growth of the group and the company and there is no dilution per-se to any shareholder interest.
- A M Lodha:** Sir, what is the average rate of interest on the existing loan, the average working capital or long-term anything will do.
- Puneet Anand:** Average is it is around 8% to 9%.
- A M Lodha:** So, when we are paying 8% to 9% to the bank and when you're getting the commercial external by 2% why to dilute the equity, we fail to understand, this is our heartiest request to the top management, kindly put our grievances to the management that we did not want right issue. The company should raise the external commercial borrowing availability by 2% and meet the required long-term loans which are already having interesting 8% or 9%.
- Avinash Bhargava:** This 8% to 9% is our term loans interest rate as well as this working capital interest rate before subsidy. And we'll reduce that subsidy part. Net cost of finance would be around 6% - 6.5% and ECB and all plus it spread and premiums would cost us more that's what we want to say from an interest point of view. Now I gave the handle to Mr. Puneet Anand to take it forward.
- Puneet Anand:** I noted your pointers and your comments that we have thoroughly evaluated these options. please give us some time because we are in silent period can't talk much.
- A M Lodha:** OK. It was our humble request on the behalf of all the minority shareholders that when we are getting money at 2% why should not utilize the money at 2%, why do we pay some premium on the equity issue and we paid the money? On one side we are taking the dividend from the company another side we're reinvesting that money on that dividend, and then we have to pay the money to be reinvested in the company, If the management considers and finds it appropriate, it can be considered.
- A M Lodha:** one last question, how many megawatts of the power we're having coal based, and how many megawatts of power is a company having or green power on solar?

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- Avinash Bhargava:** We have around 30 MW power on solar, and 46 MW thermal power plant also. But Thermal is not working now. So, we are procuring the power from State Electricity Board.
- A M Lodha:** Why we are worried because always coal cost is very prohibited nowadays and it is not at all viable to purchase coal at this price and the product also, so do the right thing.
- Moderator:** Thank you. The next question is from the line of Hemang Kotadia from Anvil, please go ahead.
- Hemang Kotadia:** Sir, what kind of volume we are expecting from new capacity addition in the current year FY23?
- Avinash Bhargava:** FY23, it will be it from these expansions it will be around ₹ 350 to ₹ 400 Cores.
- Hemang Kotadia:** Ok, incremental turnover.
- Avinash Bhargava:** Yes.
- Hemang Kotadia:** OK, How the demands look like for Mélange Yarn? which is value added? Even though you mentioned it in the opening remarks but just if you elaborate more on that line.
- Avinash Bhargava:** As of now, the prices in Mélange Yarn are stressed. But, from October onwards we look for a good market in Mélange.
- Hemang Kotadia:** OK and can you tell me VSF prices for the last quarter?
- Avinash Bhargava:** Viscose yarn.
- Hemang Kotadia:** No, raw material
- Avinash Bhargava:** Viscose prices for last quarter were 185 to 188 ₹/kg.
- Hemang Kotadia:** Ok, and last question. What will be the sustainable EBITDA margin once we will get the new crop in October? So, is this kind of margin sustainable?
- Avinash Bhargava:** The sustainable EBITDA margin will be somewhere around 11% to 12% looking to this current market scenario. Otherwise, this market will get improved in a better way. We can have at least 12%.
- Moderator:** Thank you. The next question is from the line of Akhilesh Kumar from Adpro Technologies. Please go ahead.

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Akhilesh Kumar: I think my question partially has been answered but I would still like to just know about the raw material trend in this quarter and cotton is the major raw material cost for us. Or because we produce all different types of yarns. So, I want to know what is the cost pressure right now on the raw material side.

Avinash Bhargava: Actually, price trend in cotton, polyester, and viscose. We will discuss all these price trends from March 21 to July 22. In March 21 the cotton prices were ₹131 /kg and then on March 22 it was ₹259/kg. Now in June, it was ₹264/kg and in July ₹253/kg and the downward trend is there. But recently the cotton prices are up by ₹15. So, we can expect ~70,000/candy in September, October in range of ₹70-75 thousand per candy, so prices should be stable on the cotton side and the polyester side the prices in March 21 were ₹100/kg and then on March 22 it was ₹128/kg now current prices are ₹170/kg after this rise of ₹128 on June 22. And as far as these viscose prices are concerned. This is ranging in between ₹185 to ₹188 since June and July the prices are stable in case of viscose.

Moderator: Thank you. The next question is from the line of Manas Singh from Value & Growth Advisors. Please go ahead.

Manas Singh: Sir, what is your strategy for the next 2-3 years given the current situation?

Avinash Bhargava: The next strategy is to implement this Lodha plant of ₹315 Cr. of 50,000 spindles. These will be operational by March FY24 and there are a few other plans also organic and inorganic growth which are under evaluation.

Moderator: Thank you. The next question is from the line of Abhilasha Satale from Quantum Asset Management. Please go ahead.

Abhilasha Satale: I just wanted to know what has been realized in Q4FY22 and what is it now and what has been your gross spreads, how your gross spreads have moved quarter on quarter basis.

Avinash Bhargava: You are asking about average price realization.

Abhilasha Satale: Yeah, I mean you can talk about cotton and polyester.

Avinash Bhargava: In Q4FY22, the average price realization in the case of yarn business was about ₹200/kg, in the case of domestic and in the case of export it was ₹249/kg. If we will take it to the average, it was ₹216-217/kg. In the case of the domestic market in Q1FY23, the prices are comparatively higher. But in the case of exports, the prices have gone down and the average price realization of grey yarn business is ₹216/kg. If we talk about this, dyed yarn business for Q4FY22, in the case of domestic the price realization/kg was ₹223 and in the case of export, it was

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₹219/kg. The average price for Q4FY22 was ₹244/kg and for Q1FY23 in the dyed yarn business, the price realization is a little up by ₹5 stands at ₹228/kg. In the case of export also it has been increased by ₹13/kg and it is ₹303/kg in the case of export and if we talk about the total price realization of the dyed yarn business it is ₹248/kg. In the case of cotton yarn, the average price realization for Q4FY22 was ₹359/kg. But for Q1FY23 it has gone down to ₹319/kg. There is a reduction trend in the case of cotton. In the case of Melange, the situation is more or less the same if we will talk about domestic and export putting together. In Q4FY22, the average price realization in the Melange yarn business was ₹487/kg. And in Q1FY23 it is ₹486/kg. But if we'll talk about exclusively this export business, the prices of Melange yarn have gone down. In the case of denim, there is an improvement. In domestic, the price realization per meter was ₹249/kg and in the case of export ₹221/kg. In the case of domestic denim price realization, it has gone up to ₹273/kg and in the case of export, it is increased by ₹43/kg. So average price realization. In the case of denim is up by ₹30/meter.

Abhilasha Satale: Ok Sir, and also can you talk about your gross spreads? Because in terms of cotton as you said the prices have gone down or even our spreads have gone down. So, if you can talk about cotton versus polyester, how your gross spreads have moved on a quarter-and-quarter basis?

Avinash Bhargava: Gross price I have explained earlier

Abhilasha Satale: No, I'm asking about gross spreads. The gross margin per kg.

Avinash Bhargava: You are talking about contribution. On a single 30 cotton and 230 PV on QoQ basis. I am taking a single 30s cotton on QoQ basis. On June 21 the contribution was ₹97/kg in September it was ₹72/kg on December 21 it was ₹92/kg in March it was ₹86/kg and in June it was ₹84/kg. And now in July, it is ₹78/kg. And in the case of 230 PV. June 21 contribution was ₹68/kg. And then on September 21, it was ₹59/kg. On December 21 it has gone up by ~ ₹15/kg so it was ₹81/kg and in March it had gone down to ₹75/kg in June and July on 230 PV these are negative contributions.

Abhilasha Satale: OK, and so I mean I heard that you said you will be able to maintain the margin at the current level. So as we are seeing, our spreads are reducing then what is giving us visibility of maintaining the EBITDA margin?

Avinash Bhargava: If we look at this July afterward. The pressure on prices is there, but we hoped that from October when the cotton market will settle down, the market will be stable. Based on that we are saying that EBITDA margins of 10%, 11%, and 12% are sustainable.

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

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Saket Kapoor: The power and fuel cost, that that has gone up on quarter-on-quarter basis also and on the year-on-year basis. The year on year is not comparable but quarter on quarter can you explain what has been the increasing cost of procurement?

Avinash Bhargava: As far as this power is concerned, earlier we were running 46 MW power plant. We were running 23 MW just to meet our extreme requirements. And the rest of the power was being purchased from the grid of the State Electricity Board. As of now, the power costs for the company are around ₹5.30/unit. This is an average of ₹5.30 to ₹5.75/ unit after considering energy exchange purchase and all. Otherwise, the power rate from State Electricity Board, net power rate from State Electricity Board is ~ ₹6.60.

Saket Kapoor: I'll come to it once again, Sir, but firstly said about the right issue. Part of the story also said when you look at the out currently EBITDA of around ₹146 Cr even on the likelihood that the margins will contract from here or will be lowered from what we have reported, we should be in an ideal position, creating twice in terms of what we are going to raise. If you take the depreciation part also, Sir, if you put forward the maintenance Capex aside, what should be the cash accrual, Likely cash accrual for this year at today's prices?

Avinash Bhargava: Our closing working capital would be ~ ₹350 Cr.

Saket Kapoor: OK, my point was to see what should be the likely cash accrual for the first quarter.

Avinash Bhargava: Likely cash accrual for the first quarter.

Saket Kapoor: First quarter, how much cash generation has been there? And how much has gone into the inventory just to understand that how have we put forward this ₹250 Cr right issue? Just to lower the debt when the cash generation is significantly higher and we are also contemplating good business attractions going ahead. So, if the cash generation from the existing business itself will create sufficient cash flow to meet our debt of obligations. Such equity is permanent debt is temporary, so if we go for any equity issuance there that is going to dilute the value permanently. And debt today is at 7%. It may go up a percentage point up or down, and with the cash accrual, we would be in a very good position to pay back the debt. And lastly, there is also the rating part, so what is our current rating and when is the renewal due?

Avinash Bhargava: Our current rating is A. And next renewal is due in December 2022.

Saket Kapoor: and our rating agency.

Avinash Bhargava: The rating agency is India rating.

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Saket Kapoor:

So, there is a very likely that the only point we investors are trying to make good sense is that in one case is just earlier as a company with the name of Sindhur Manganese came up with the right issue only to reward its shareholders. They priced the issue at ₹10 when the stock was trading at ₹ 5000. So that investors would be getting a cash bonus in that form they were not raising funds to dilute it. They were rewarding shareholders and here we are trying to look to raise equity to pay off debt when the environment for our business as well as the debt market as well as our ratings are due. Give us sufficient leverage to take debt and repay it in due course of business. So that was the reason earlier speakers also mentioned and we investors are unable to make good sense of the reasons. And if that be the case, that promoter wants to give an opportunity, or rather wants to send them the balance sheet from the equipment, they can come up with the issuance of a warrant to the promoter on an 18-month basis and infuse capital in tranches. That can happen at the current market price or the average formula as given by SEBI because whatever be the case, I think so more deliberation should be done and there should not be any hurry to conclude the right issue part as the cash accrual for the quarter are significantly higher than the total amount of money that the company is emphasizing to raise. So, at this point, if you could give me the cash generation number for the first quarter?

Avinash Bhargava:

There are so many things in your questions I will answer 1 by 1 and remain unanswered it can be taken over. You are asking that company has good cash accruals yes, we have good cash accruals for quarter one, but since it is a cyclical business, you have seen in the past also in textile is a cyclical business and ups and downs are there to safeguard from these hiccups. This right issue is preferred. Secondly, you will see how it is going to reward the shareholder when we'll announce our ratios, and how it is going to be allotted at which fixed prices it will be allotted. It is going to be allotted you will see in future. So, if anything else, remains unanswered from my side you can put a question again to us.

Saket Kapoor:

I was looking for the cash generation number for the first quarter

Avinash Bhargava:

Cash profit for this quarter was ~₹ 122 Cr, which includes this sale of non-core assets.

Saket Kapoor:

And if you could give me some color on the order booking aspects, we are sending our yarn on a forward basis. So how were the utilization levels looking for this quarter?

Avinash Bhargava:

As of now, utilization of machines is ~95%-96% and you can say that these are 100%, but yes, looking at the demand and all will not make unsold stock. If it is required, we may stop some spindles and this will be for a very short-term period.

Moderator:

Thank you. The next question is from the line Aman Madrecha from Augmenta Research, please go ahead.

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- Aman Madrecha:** Can you throw some light what we are witnessing in the industry and from all the leading players overall, in the spinning industry basically talking about the cotton yarn, there is like around 30% to 35% of the total facility has a problem, so have we undergone any production stoppage or something like that?
- Avinash Bhargava:** No till date we have not gone for any production stoppage at any of the locations.
- Aman Madrecha:** OK, and Sir, can you just give me a mix of your cotton yarn and your other value yarn silk, polyester, and mélange both in terms of volume and revenue?
- Avinash Bhargava:** Last year we had ₹ 3,800 Cr plus for the entire FY22-23. If we break up this turnover into two parts of domestic and export ~37% is for export and the rest ~63% is domestic sale. And it will break up these ₹ 3,800 Cr into Cotton Melange and PV, 60% basket is for our synthetic yarn and 40% is for cotton. And in that cotton also around 20% is Denim. So, this is the 60-40 ratio for synthetic yarn or cotton yarn.
- Aman Madrecha:** And Sir, how this ratio has been over the last 3-4 years? If we talk about like is that being the ratio we have been maintaining or previously we have more cotton based and now we are polyester.
- Avinash Bhargava:** It depends on the demand and supply because when prices are lower in the case of cotton. It may go up and if it is higher, it may go higher also so as far as this quantity part is concerned, more or less, it is the same.
- Aman Madrecha:** We are expecting that as and when the new cotton is arriving in October, the situation could normalize and spinners can go back to same level of profits, can we expect that the cotton share to increase during that time in the revenue.
- Avinash Bhargava:** Yes, when the cotton prices will get stabilized in October, we expect that there should be good demand momentum from October to March and the demand and supply should get stabilized by that time. As of now, the prices are under pressure and this demand can be shifted to second half of this year.
- Aman Madrecha:** OK. And one more thing like how much cotton inventory are we currently holding?
- Avinash Bhargava:** We have around 45 to 60 days of inventory as of now.
- Aman Madrecha:** As of now, can you just give the price of this inventory?

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Avinash Bhargava: We are holding the inventory for our production till September only. We are waiting for a new crop arrival. And will buy it when the new crop price will get stabilized.

Aman Madrecha: We have cotton till September-22.

Avinash Bhargava: Yes, we are holding the inventory for our own use till September-22.

Moderator: Thank you that was the last question. Ladies and gentlemen, on behalf of RSWM Limited that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.

(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
