



“Fiberweb India Limited Q2 FY-19 Results Conference Call”

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MODERATOR: MS. PADMAJA AMBEKAR – IRFLUENCE ADVISORS

Moderator: Good day, ladies and gentlemen and welcome to the Q2 FY19 Results Conference Call of Fiberweb India Limited. 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. Please note that this conference is being recorded.

I now hand the conference over to Ms. Padmaja Ambekar from IRFluence Advisors. Thank you and over to you.

Padmaja Ambekar: Thank you very much. Welcome everyone and thank you for joining us for the Q2 FY19 results ended on 30 September 2018 Earnings Call of Fiberweb India Limited. Please note that the results and presentation have already been uploaded on the exchanges and you can view this on the website of the company on www.fiberwebindia.com. To take us through the results and to answer your questions today we have Mr. Bhavesh Sheth – Director of Fiberweb India and Mr. Pravin Sheth – Chairman-Emeritus.

We will be starting this call with a brief talk by Mr. Bhavesh Sheth to give us an overview on the company’s performance and key developments during the quarter followed by Q&A session.

I would like to remind that everything said on this call that reflects any outlook for the future and which can be constituted as the forward looking statement. It must be viewed in conjunction with uncertainties and the risks that we face. These uncertainties and risks are included but not limited to what we have mentioned in the prospectus filed with SEBI and in subsequent annual reports which you can find on our websites.

With that said, I would now turn over to Mr. Bhavesh Sheth to take over the proceedings. Over to you, sir.

Bhavesh Sheth: Thank you, Padmaja. I hope everyone can hear me clearly. Thank you once again everyone for taking the time to join us on this conference call. I would be giving you our business update and I have in our Mumbai office our Chairman and key people of our management as well to answer any questions that may come up later.

So anyway starting on with the business update. This has been quite an interesting quarter for us. We had to monitor the volatility in the price of the crude oil as it has a direct impact on the price of our primary raw material which is polypropylene resin. We also had to monitor the changes in the economy of our primary market which is the USA as it deals with the effects of been position of credits on China and the counter effects of it as China imposes tariffs in turn which affects the exports from the US.

Also the polarities of the US economy which on one hand has the lowest unemployment since 2008 so it is doing well but however the retail sector surprisingly continues to perform poorly despite higher purchasing power in the hands of the people. There is the spectra for rising interest rates which on an economy like US which is traditionally been a very low interest rate economy

it causes confusion, uncertainty so on and so forth. So all of this is causing changes in the manner in which business has done across industries including our industry which is the nonwoven industry when changing how business is done.

Therefore what we have been doing is at a macro level we have been closely monitoring the changes in the nonwoven industry and strategizing about what changes we need to make at our end to align our business with the current state of the nonwoven market and to maximize our gains. At a macro level to see how it translates into matching with the macro level scenario we have been looking at our product mix and focusing more on sales of value added products versus per se the traditional business we have been doing of pursuing volume opportunities where margins are much lower.

Keeping with that strategy we have been reducing our focus on selling products made on the single beam leased line which are suitable mainly for a particular segment of the lawn and garden market. The reason we have reduced our focus on that is because over a period of time the gross margins in this segment I mean reducing steadily over the years down from about \$800 per metric ton in 2017 to less than \$350 per ton in this quarter which is really a low realization considering that any other spike in processing overheads can ride that away.

So with that in mind we have decided to move our resources from sales in that market to focus on sales in another higher margin area. Since our own double beam spun bond line from like we are producing excellent quality of spun bond which has passed every certification over various applications like hygiene, medical, contact with food which is FDA approved usages to name a few.

We have been changing our product metrics by moving towards specialty fabrics and higher value added products. We have focused solely on going after businesses where profitability is high versus the traditional approach of going after bulk commodity business where margins have started to shrink. It is actually a lot easier for us to continue pursuing our traditional approach and go after bulk business where we process a lot of tonnage which gets translated into a high turnover but relatively low profitability.

On the other hand pursuing business in niche areas that yield our margins requires a lot more effort but we have been pursuing that path. The result is that though the average order size is smaller employing a smaller turnover number these are accompanied by margins which are much higher than what we get in our traditional business.

It takes time to implement any such changes as you all can appreciate. And there is a long product developmental lifecycle and also the approval process for high value added products takes time. So we have been working on it there is nothing that is happened over night or within this quarter. We have been working on it for the past few months and it has yielded results now. And the benefit of the strategy is visible in this quarter. And as we will be continuing down this path we should see even more show of it in the forthcoming periods.

So consequently even on reduced turnover for the quarter we have managed to record a higher profitability. The blended gross margins on specialty fabrics and higher value converted products are almost 50% higher than what we have seen on our traditional products.

Now that is on the spun bond side. Now coming to the Meltblown side we have maintained our sales volumes and product mix for the Meltblown products as in the previous quarter however we have not just been complacent about it we have been pursuing various other opportunities to increase the quantum of business we do on the Meltblown converted products. So again in this case also as in the case of spun bond converted products the lifecycle of product development and the approval process which includes lab tests and field tests is a long one. So we will see the so though we have started working on it and have been working on it for quite some time now we will reap the benefits of it in our forthcoming quarters.

The strengthening of the US Dollar vis-à-vis the Indian Rupee has been beneficial to the company and it is reflected in the other operating income. It is only comprises of the gains on foreign exchange realization. Our focuses has also been on reducing costs while going after business with higher value add and higher margins. We have been focusing on reducing cost especially with regards to the manpower and other overheads and we have taken advantage of some low hanging fruits where they were opportunities for cost reduction which were fairly apparent and easy to implement without making any major changes in the organization or to the processes we have in place.

And the year-over-year number which show cost to be lower this year versus the last year. The other thing is almost all customers who orders specialty fabrics from us or higher value converted products expect the kind of wide growth delivery service where all shipments have to be on a CIF basis which is delivered up to the destination ports or on DDU basis which means it is door delivery duty unpaid.

So which is why you will see the freight cost is higher. The other important factor to be noted is that when we ship converted products we can accommodate a lower amount of tonnage in a 40 feet container which means the prorated freight cost per kg or per pound whichever way you want to look at it goes up which is also partially the reason why the freight costs are higher this quarter.

The other thing is as we have sold a lot more of higher value added converted products this quarter the packing costs are also higher compared to packing costs reported in earlier period when the costs were primarily related to the bulk business of selling roll goods. The additional costs of packaging of converted products is included in the price we recover from the customers therefore despite increase in packaging cost the profit margins are not affected. They are in fact slightly better.

The one other thing is though the price of our primary raw material which is polypropylene resin is linked to the price of crude oil it is important to note that the changes in the price of crude have not affected our profitability because ours is strictly a cost plus model where the price is

linked through an index which publishes the cost of the raw material. Therefore any increase in the price of PB resin is passed on to the customer.

There is a time lag to get the price increase approved however because this process we need to follow however we have two months of low priced inventory on hand always so there is no real loss to us and we were able to pass on the increase to the customer. The other thing is our primary sales are to the US market and here the increase in price of crude does not have much of an impact as much of the impact across the spectrum of goods including nonwoven fabrics in the US because unlike some other countries US is a net exporter of crude oil.

So it does not have as much of a steep impact on the generic price of all the goods. this was about the operational part of the company. Now regarding the project we have in the offer this is the project diversification of the Flat Bond. We are pursuing the project actively on two fronts. One is with regards to obtaining funding to part financing project here we have made progress by almost and secured the funding and we could drawn it after we are completely satisfied that the technical aspects related to this project have been fully flushed out and finalized which is my segment in to the other aspect of this project where we have been working simultaneously with the line vendor to have them addressed the technical complexities related to the Flat Bond line.

Though we have had successful test on the pilot line it is quite different when it comes to the design and construction of a full blown weight line where a lot of technical design and construction details need to be discussed and reviewed in depth so by our technical consultants before we finalize the specs. To achieve the said objective from our end we have provided a lot of input by obtaining data from those who have already researched installing such a line in the past. We have obtained specifications about the fiber composition, the web structure and the other principle characteristics required for certification of the fabric for varied applications as per international standards ESTM included.

\ So we are in discussions with the line vendor to provide financial guarantee regarding performance of the line as well because it is a big investment. The timing of completion of this exercise is to a great extent depended on how fast the line vendor is also able to address the open items that are currently under discussion. But we are actively pursuing it for an early completion.

That is all what I have from my end right now. With that I would like to open the floor and invite questions which anyone may have.

Moderator:

Thank you very much. We will now begin the question-and-answer session.

The first question is from the line of Bhavesh Patel, an individual investor. Please go ahead.

Bhavesh Patel:

My key question is about how will you ensure continued topline growth as well as ensuring that there is an interest in the market because the price has fallen a lot and will you be doing kind of a promoter increase of the stake as well? That is it from my side.

Bhavesh Sheth:

Thank you Mr. Bhavesh for your kind words about the performance and presentation.

Coming to the question you had. As I have said that we have been closely monitoring the changes in the market and the business is changing. The share of the business is changing and we have been reviewing it following it very closely annualizing it both at a macro level and also at a micro level. And we have made changes to the product mix we are doing our marketing along those lines. We are getting a lot of success.

So we are now going to see continued growth and rise in volumes in sale of converted products wherein our margins will be high. So we will be able to maintain our topline and not only maintain the topline but actually we have a better profitability at the same topline number. That helps answer the first question you had. I believe the second question you had was regarding how will you maintain the market price.

Mr. Bhavesh, what I can do from my end is what we can do as a management team at Fiberweb is we can work on what we can control and the performance of the company and the results we declare and that is what we can control which is we tighten our belts, control costs, go after higher value products and improve the profitability of the company.

Bhavesh Patel:

My direct question was more in terms of promoter increasing the stake because I did see in between Chairman Emirates increasing the stake by 10,000 shares and all but slightly more would give lot of confidence. We agree and absolutely are interested in looking forward in terms of much more growth together and you are right I mean the number will and the profitability will ensure that the interest will come back and the price will then reflect true value. Having said that promoter stake has decreased over a period of time. So any increase which is substantial will only increase tremendous confidence in the company as well. So that was the suggestion.

Bhavesh Sheth:

Okay, thank you Mr. Bhavesh. This is a point well taken and we are vested a 100% in the company. So obviously over a period of time we will also as our shareholders are buying all fresh shareholders would buy and want to benefit from the profitability of the company and the increase in the share price.

Moderator:

Thank you. The next question is from the line of Kiran Rankhamb, an individual investor. Please go ahead.

Kiran Rankhamb:

Sir, this is regarding our expected new project that is flat bond. So do we have any timeline means when we are expecting when we will set up the plant and will start the production for this new product?

Bhavesh Sheth:

Mr. Kiran, that is a very good question. And that is a question I keep on asking myself every single day. As I was mentioning a bit earlier today we are pursuing discussions with the line vendor actively. But we want to be very sure we have some consultants also who are very well experienced in this and they are making out the design options given to us by the line vendor. We want to be very, very sure when we are making an investment of this magnitude.

We measure twice and cut once because we have a pretty sure the responsibility we have put in our own money, we have got your money in the company so we have to be very careful when we make the investment that the line we get is capable of producing the kind of product we need which will in turn ensure that we get the kind of high margins we are envisaging from this product.

So to that end we need to get the technical aspects. The complexities all squared away, the technical aspect are all finalized. In terms of the timing I would like it to be done as of yesterday but again it is a process. I am dependent on the line vendor they are also doing their due diligence, they come up with suggestion, then our consultants sort of challenge that. Some of it goes through, some of it does not go through we throw it back at them. So this process I wish I could have told you like a definitive timeline in terms of like number of days by which we can start. But I mean if I had to look in the crystal ball I will probably wanted that this thing to be off to the races by no later than December.

In terms of the timeline it is a 12 month delivery period once the line vendor starts actively making it which could be shortened. Again this depends on the design complexities and once the line is shaped then it is about two to three month period for the erection, the installation erection and the successful trial runs.

Kiran Rankhamb:

But as I understand six months back we have already started the financial means from master opportunities fund and we have already started raising the capital but it is just a capital issue or it is a technical issue or we are just making sure vendors would also give some time means they should give us surety they will buy the product from us because we have already started the process around three years?

Bhavesh Sheth:

Let me clarify that. We are talking of three different things. The first thing I would like to put out there is it is not a financial issue. We had a hick up I will be very upfront about it. When one of the first decided to pull out of the investment at the last minute but that is fine. We have thereafter made alternate arrangement so that is not an issue. The thing is that we need to first get the technical aspects of the line fully vetted out and fully crystallized. It is only then that the question of even making the down payment come.

So in theory even if I am sitting with the money in my pocket today I am not going to write a cheque with them, the down payment unless we get that sorted out. So that is what is holding us up right now. You were asking about the sales aspect. The sales aspect is not an issue. It is our existing customers who are going to buy it. Their commitment still remains because there a huge gap between the global demand and supply for this particular product.

So we do not have any issues on that front also. In fact if anything the margins have actually risen between the time we last did a profitability projections earlier this year in around March versus now. Just because the selling price has gone up because of rise in price of raw material and the cost more or less remains the same. So the margins have actually become a lot more lucrative than what is they were six, eight months down the road.

But again as I said we have a fiduciary the responsibility before making such a large investment. So we have to be extremely, extremely careful that we have got everything ironed out, everything choked up and then only we are going to sign off the dotted line to have the line vendor build the line for us.

Kiran Rankhamb: Sir, I have one generic question regarding the company. Sir, what is the profitability we are looking three to five years down the line from the company?

Bhavesh Sheth: That is a good question. I think we have displayed a few profitability projections. We expect our topline after flat bond comes to be about Rs. 150 crores or Rs. 160 crores and again do not hold to me this number only because the pricing changes depending on the price of raw material. So the raw material prices being where they are right now we get a selling price of over \$1.75 per pound. So then in that it could be about Rs. 160 crores to Rs. 170 crores. Now if the raw material prices go down tomorrow magically for some reason if the prices of oil go down, if the sanctions on iron ore is lifted, Venezuela political unrest is stabilized then oil prices will fall down.

In that case the resin which we are buying today at \$1,500 will go down to probably \$800. In that case the selling price will also go down and then that means though we will be doing the same tonnage the topline number will be a lower number about Rs. 125 crores which is why I am saying that because you were telling me to, look it is not a static number or I am not selling in Indian Rupees it is all depending on the value of the dollar. So that is what it is and we are looking at net margins of 32% to 35% conservatively speaking not less than 30%.

Kiran Rankhamb: So tentatively may be in the next three to five years can we expect the bottomline of Rs. 80 crores to Rs. 100 crores or it will be less than that?

Bhavesh Sheth: I am not seeing the calculator here but we are going to maintain our current profitability as we do right now and we can add to it about net 30% margins on a turnover of say average out another Rs. 150 crores and that would be our net profitability.

Moderator: Thank you. The next question is from the line of Asim Biswas from Justin Limited. Please go ahead.

Asim Biswas: My question is almost answered. My question is regarding flat bond. I got the answer. But one question, when the flat bond machinery going to be ordered? It has been already ordered or it is pending?

Bhavesh Sheth: No, we will not order it right now till we have all the technical complexities. Because once we order we are contractually bound to pay them the money and you do not want a defective line and then we bound to pay for it.

Asim Biswas: So while expecting that listing is going to be ordered what is the time expecting? Is it one year, two years, what is the time period expecting?

- Bhavesh Sheth:** What is the time to order the machine?
- Asim Biswas:** Yes.
- Bhavesh Sheth:** That is what I was telling the gentleman who was previously on the line Mr. Kiran that we are working hard towards it and as I said a lot depends on how fast the line vendor response to us but if I have to sort of do an estimate I would say we will place the order sometimes in December and then it is 15 months; 12 months for delivery of the line and then another three months to four months for the erection, installation and then the successful trial runs which could happen in 15 days or it could take two months.
- Asim Biswas:** Sir, my second question is it was last con call it was told by Pravin Shethji that in near future it is going to be listing in Nifty. Fiberweb is listed in BSE only but not in NSE? But is there any future plan that it will be listed in NSE?
- Bhavesh Sheth:** I guess that is something which we could take up for discussion among the board. It is a good suggestion and we will definitely consider it and I hope we may be able to have an answer for you on the next conference call.
- Moderator:** Thank you. The next question is from the line of Pravin Sharma, an individual investor. Please go ahead.
- Pravin Sharma:** I have one question. I just saw that what is the Forex gain in this quarter because you mentioned it is mentioned in other operating income and if I see the line item it is blank for all four quarters like YoY, QoQ. So what was the Forex gain and suppose Rupee is going to appreciate from here what kind of impact will it have on our profitability like do we hedge it and what kind of hedging do we take? I understand it is lying in as per the annual report in to the exchange less currency account so does it lie there unhedged so tomorrow if the Rupee is going to appreciate to say Rs. 66, Rs. 67 so what kind of impact will it have on our profitability?
- Bhavesh Sheth:** It is an excellent question because that is what we do day in and day out whenever we are giving a price quote. So I am glad you asked that question. The first clarification I will do is I would fall on this word and say that when I say it is other operating income that was purely my fault it appears under other income the amount of Rs. 30 lakhs. Do you see that?
- Pravin Sharma:** Yes, I see it.
- Bhavesh Sheth:** And that entire thing is we gained on foreign exchange realization. Now coming to your question regarding do we hedge if there is a reverse trend, no we do not. And there is a good reason for it. We have never done it in the past. The reason being traditionally we have not had a reverse trend to a major degree. The other thing is that we earn in foreign exchange. We have an EFC account so our sales are in US Dollars and we earn in US Dollars which we retain in US Dollars and that helps us pay for our imports of our raw material in US Dollar. So that is a straight payment right from there so that is a wash. There is no loss there.

And then as required from time-to-time we do convert part of our foreign exchange proceeds in our EFC account into Rupees to pay for our expenses. Now whenever we do the costing we look at the current pricing what we have, the current conversion rate that is there and take 20% less of that as the cost when we consider our overheads, our conversion cost. So what we will do is when the Rupee was Rs. 66 we used to consider Rupee that we settled at Rs. 60 and then we will calculate what like considering our conversion cost in Rupees.

If we were going to get a realization of Rs. 60 to a Dollar what would be the cost then and then we quote a price of accordingly. And then while this has been a very pleasant news and good bonus for us that the profit we have made on the foreign exchange realization our costing still continues to be at Rs. 66 even today and none of our customers have got on to that that the Rupee has been weakening and how come your prices have not changed. In fact if anything we have been slightly increasing our prices and no one has focused on that. So we do maintain be in that kind of a hedge of about 20% in our pricing strategy itself. Does that make sense?

Pravin Sharma: Yes, it make sense but tomorrow if the customers catch you out and then tell you to price it at Rs. 66 then would it not reduce our profitability?

Bhavesh Sheth: No, but then we also have our margins in place and all that. So it never gets down to that final granular develop calculation. Their focus is mainly on what is the price of raw material.

Pravin Sharma: Our orders like short term orders or if they are long term then one has to definitely take care of the currency exchange because I understand from your reply that most of the costing exchanges built in to the costing so it is a cost plus model so it is a pass through thing with raw material as well as exchange rate. And the orders which the customers places like they are firm orders kind of thing so that tomorrow if the exchange rate changes or something even the PP prices changes you are free to revise the costing because it may have?

Bhavesh Sheth: Every PO visit carries an implicit cost about it being a cost plus model about the price escalation. They link it to some index which is the CDI index in the US wherein prices reflective of PP resin there are always about a \$150 or \$200 more than our actual pricing at which we get the material.

That is thanks to our Chairman Mr. Pravin Sheth he has been able to always source raw material from Exxon because of his relationship or whatever magic he does with them that he always been able to get the prices at a much lower rate than what we have on the CDI index. And these guys follow CDI index so we have arbitrage a margin built in right there itself.

Pravin Sharma: And the Meltblown utilization I understand it is around 17% to 20% on the line correct?

Bhavesh Sheth: 17% to 20%.

Pravin Sharma: If I am right means what is the capacity utilization of the Meltblown line right now?

Bhavesh Sheth: Standalone Meltblown line itself?

Pravin Sharma: Yes, standalone.

Bhavesh Sheth: Okay not as a percentage of the total sales we do, right?

Pravin Sharma: No, because I was just thinking of what if the utilization goes up what is the kind of operating leverage we will have and may be the quantum of impact it can have because that is a product with a higher margin and higher value addition so as we go you know since our flat bond line is not going to come in distant future it may take means once we order it will take a year to come up. So I was just thinking on what will be the kind of impact on our profitability if the Meltblown line has a lot of spare capacity that business can kick in and we can generate lot of EBITDA from there?

Bhavesh Sheth: Right, so right now we are at about 70% utilization so we have room for growth there. And that again I am giving you this number purely on a roll goods basis so our margins on the roll goods are also from Meltblown are there but fortunately for us we are jump starting the cycle. When we went in to Spunbond we had to do roll goods for a fairly long amount of time before we started getting opportunities to do converted products where our value add is high.

With Meltblown we have started getting opportunities right away in the very first year of our operation. And I still have two or three other products which we have to develop where margins are still higher. So not only do we have some room to grow in terms of the tonnage we will produce but also the tonnage we will produce will yield higher margins than what we have gotten earlier in the year. So there is room for more profitability from Meltblown right there.

Moderator: Thank you. We will move to our next question which is from the line of Prabhu Selvaraj, an individual investor. Please go ahead.

Prabhu Selvaraj: Sir, my question is regarding the tax. So from which quarter we will be start paying the tax?

Bhavesh Sheth: Probably from next quarter probably or the one thereafter. I do not have the exact numbers in front of me. I need to talk to our chartered accountants about it but so then do the calculation because as you know it is pretty complicated plus there is the MAT aspect of it. But yes, we exhausting all our carry forward and depreciation and all of that this year and start to pay tax. So I am almost certain it will start from next quarter if not at least the following one definitely. So we are going to have to pay some tax this year.

Prabhu Selvaraj: One more question regarding the Flat bond project. I remember Pravin Sheth in previous interview somewhere in CNBC or something he was telling like promoters are going to invest some Rs. 20 crores for this project. Whether it is in line?

Bhavesh Sheth: We are committed to moving forward with the project. We have arranged for the partial funding that was required from. The funding that was required in addition to the equipment finance the company is already invested a lot from its internal accruals and as I was mentioning to a gentleman earlier on the call I believe it was Mr. Bhavesh Patel that we are committed to the

company so when it arise yes, we will put up the money. But for now we have the funding of the entire capital cost tied up so we do not envisage a need for it right now.

Prabhu Selvaraj: Currently it is not finalized or something like that?

Bhavesh Sheth: No, nothing right now.

Prabhu Selvaraj: How much loan you are expecting for this project?

Bhavesh Sheth: It should be about Rs. 30 crores or Rs. 32 crores.

Prabhu Selvaraj: And one more small request on the investor relationship side. So we are not getting prompt replies or anything for the mail communication or for the call also we are not getting. So management is more transparent on sharing information it will be very good which will increase the investor confidence. Because I used to send a lot of mail and not get any reply on that, that is what?

Bhavesh Sheth: Okay please accept our apologies whatever not so good experience you had. We have new IR agency IRFluence they are fantastic and not because we just hired them or something but I can tell you from my dealings with them over the past one month they are very proactive and they are fantastic. You will not have this complaint going forward. I can assure you.

Prabhu Selvaraj: One more thing on plant visit. I hear people are telling plant visits has been arranged and we got some mails. Is there any filtration because we did not receive any mail? Is there any filtration or sending the plant visit invitation?

Bhavesh Sheth: I think we have the IR team also on call. So they will reach out to you and get your email from you as well, your contact details in case it has not been sent to you. But it has been sent to quite a few people and we are planning one shortly. So they will circle back to you on this.

Moderator: Thank you. The next question is from the line of Vijay Dasari from Fiberweb. Please go ahead.

Vijay Dasari: I am not from Fiberweb, I am a retail investor. One thing when I want to know more about this company I started going with the annual reports. The first thing what I noticed in the annual reports as a retail investor is there is not much information being put in to that annual reports. If you see the annual reports that are on the website of Fiberweb of BSE management discussion or whatever there is not much information. I would kindly request to put more information as you come from time-to-time like this investor presentations and so there is lot of information provided over there but I also kindly request to you to put something more informative in to the annual reports.

If someone wants to think to invest in this company and he picks an annual report as a matter of fact any year annual report he should be able to comprehend and know the history and the products so on and so forth so that he comes in understanding about the company. That is my

one request. And the coming to the question is how do you see the value of the company right now considering the share price hovering at mid-40s or so?

Bhavesh Sheth:

Mr. Vijay, first of all thank you for your kind words. Thank you for the support you have demonstrated. Your confidence in the leadership of Mr. Pravin Sheth which has brought the company to the solid platform from which we can only grow from here. So thank you once again for that. Your suggestion about more information in to the annual reports we will definitely take in to consideration because we are quite committed to a lot more transparency in communication with our investors and shareholders.

So I believe what we have been publishing so far is in line with the statutory requirements. Our new IR team would be doing a lot of more disclosure in terms of information communication with all the investors and shareholders we have representations. But if there are something still more then we will still be looking for ways to improve and you have more than welcome to give us specific suggestions about items you would like to have more clarity on.

So our commitment to that remains. Regarding the value of the shares as you are seeing that we are a dynamic company, we are profitable for these years even with the changing market conditions we are nimble enough and agile enough to see the changes coming in advance and position ourselves to address those changes.

And we have not only done that we have walked the walk also. And we have changed our product mix and we have maintained the profitability. So you are seeing that we are maintaining the profitability and trying to maximize our grades and grow the profitability of the company as well. So considering how we are operating right now and the plans for expansion we have on our plate the products we have identified for the future diversification. All of that means the company has a lot of value in terms of how it is reflected in terms of the current share price as I was mentioning to a gentleman earlier today those are external factors I cannot control. Not just because it is my company but purely as a finance guy if you ask me yes, absolutely the share prices undervalued at this point in time considering the potential of the company.

But is it something I can do something to rectify? No, that is up to the investment community like you folks are who see the numbers recognize the quality of the management in place, see what we are doing to maintain shareholder value and invest more confidence in the company and that will eventually see that the shares get to a point. The share prices get to a point that reflects its true value.

Vijay Dasari:

But in case it should believe it is undervalued can we expect the promoters to increase their holding percentage from 45.5 percent to something bit more on this side?

Bhavesh Sheth:

As I said the need for the funds arises will definitely vested in the company. I mean this is all what we are doing for a living right now, right. We are spending 18 hours a day solely focused on working for the company. So yes, absolutely if the need arises we will put in more money

obviously there is the SEBI restriction on acquiring more than 5% in all of that. But we will have our compliance team look in to that when the time arises and take care of those formalities also.

Moderator: Thank you. We will move to our next question which is from the line of Abhishek Jain, an individual investor. Please go ahead.

Abhishek Jain: Sir, on a standalone basis our revenues have reduced from Rs. 48 crores Rs. 31 crores it is a very large loss of revenue?

Bhavesh Sheth: I would not be necessarily look at it that way because everything I mean what I would request Mr. Abhishek is you have to look at it from just purely sale value number because you could be selling a lot of it but if you are making only 2% numbers look big but what is your net profitability, a very small number. So as opposed to that the end of the day the value of the company, the value of the existing value of the share does not rise based on the turnover but it rises based on the reserves we have which is a direct function of the net profitability we do.

So this was a conscious move that because in the high volume bulk business the margins were shrinking so we could have easily maintained this number or actually exceeded it but we would have not been able to maintain the profits. So it was very conscious move to get in to specialty fabrics composites so on and so forth. And also move towards more converted products which not just converted products but also converted products which have a higher value add to it where our margins are higher. So it has been a very conscious strategy because of which we have done it. And you can see that is paid off because our profitability our EBITDA per metric ton or our gross margins per metric ton are much higher than what they have traditionally been.

Abhishek Jain: Yes, the margins are higher but still there is a loss of revenue so the material profit is a little less compared to what it was considering that there is an increase in the price of the product also? Polypropylene prices have also risen and so the selling price would have risen?

Bhavesh Sheth: The rise of the Polypropylene directly is a pass along to the customer. So that does not really affect our profitability and you would see that for the quarter ended June we had a turnover of Rs. 48 crores but our net profit was about Rs. 5.6 crores and as opposed to that even on reduced turnover I am talking about standalone results we were down to Rs. 32 crores but then the net profit is almost flat it is actually slightly higher at Rs. 5.8 crores. So there has been no hit on the profitability actually. So pardon by saying so I am trying to understand where did we see that will make you less money despite the fall in the sales.

Abhishek Jain: No, despite the fall in the sales you have actually over performed on the profit levels but the thing is if there will be an incremental sales from here then these margins then the number will look very, very good?

Bhavesh Sheth: And that is the main point behind moving to this product metrics.

- Abhishek Jain:** I am saying that if we will do around the same revenue which we were doing earlier like Rs. 58 crores on a standalone basis with this product mix that would create a very, very good on our bottomline?
- Bhavesh Sheth:** Absolutely and that is what we are aiming for. We will be very close to touching what it was last year. Obviously I will be upfront and tell you it will not be the same topline as it was last year because we are ramping up right now as you can see. But the net profitability will be higher and in the forthcoming quarters thereafter this is the baseline from which we are growing with this kind of a product mix. So it is only going to augur well for us.
- Abhishek Jain:** Because from the next quarter onwards as you said the tax expense will also start reflecting in the number. So we have to increase and that would be around may be 20%, 30% on whatever profit you have earlier we are delivering right now.
- Bhavesh Sheth:** Absolutely it is a point well taken, Mr. Abhishek thank you so much.
- Abhishek Jain:** And sir, for the funding of Flat Bond how are we funding it means are we going to raise debt or it will be more internal accruals and how much capital would be needed for this funding?
- Bhavesh Sheth:** It is a combination of debt and internal accrual which takes care of our part of the funding and the rest is equipment finance from the line vendor.
- Abhishek Jain:** So what will be the cost of this line?
- Bhavesh Sheth:** The cost of this line is about €9 million.
- Abhishek Jain:** €9 million that will be around Rs. 90 crores? Of which Rs. 90 crores how are we funding it?
- Bhavesh Sheth:** 60% is from the equipment finance. So 40% we are putting in. This is financed through a combination of internal and there is some other ancillary equipment also that have to be put in fabricated locally and installed along with this line so that is met right now. We have already working on it so we have already also incurred a lot of pre-operative in that regard. So that is all been from internal accruals and the rest will be met by the debt which we have secured. So it is a combination of these.
- Abhishek Jain:** The thing is that the expense which we are making on flat bond will only that translated in to revenue from may be what you just told after 15 months from now?
- Bhavesh Sheth:** That is correct.
- Abhishek Jain:** But the cost will be upfront means it will also have to be absorbed by the operation from the company which will again means on the number basis it will look bad it will not have a very good effect on the bottom-line for the coming quarters?

- Bhavesh Sheth:** There are some aspects of that in the equipment finance basically we start (a) the rate of interest is very low, it is 2 basis points towards the Euro bar which is negative right now. And it starts basically the loan repayment starts a year after the last disbursement has been made once the line has been certified to be commercially functional and the interest payment starts six months thereafter. So we have moratorium till that period. So we are not expecting any major impact on the bottom-line in this interim period.
- Moderator:** Thank you. We will move to our next question which is from the line of Harsh Visharia, an individual investor. Please go ahead.
- Harsh Visharia:** You have said that you are producing value-added products such as baby diapers, crop cover and bed sheets. Is it right, sir?
- Bhavesh Sheth:** We are not making baby diapers. We are supplying hygiene Spunbond to make baby diapers. But our value added products are used in various industrial applications. It could be vacuum bags, it could be insulation bags, which are of quite a complicated design and they go in to big filtration plants, it could be bumper covers. There is a host of items actually.
- Harsh Visharia:** Sir, my suggestion is why do not you tie up with our local firms in India only for supplies of your raw materials such as P&G that is making baby diapers so you can supply your raw materials with them also? So it will grow our business and you are sales also?
- Bhavesh Sheth:** Which is a good suggestion, Mr. Harsh and we will definitely we have basically been selling out our production so far and because as you know that recently we were following the model of bulk supplies because our margins were well maintained. But now that we are changing our product mix and the way we are doing business, it is a good suggestion. We will definitely take it into consideration and that in the next business meeting internal sales family meeting we will definitely take it in to consideration.
- Harsh Visharia:** You have to explore such more opportunities and make your product locally also available.
- Bhavesh Sheth:** Absolutely your point well taken.
- Harsh Visharia:** Sir, my second question is will you be declaring the interim dividend now or final dividend or you have intentions to declare some dividends?
- Bhavesh Sheth:** We will make the decision at a later date because what we have to do is we have to evaluate between what makes more sense and adds to the value for the shareholders. Whether we reinvest that money in to our next phase of expansion and provide returns on capital which are far greater or do we have a payout right now. It really is an exercise we need to do mostly towards the end of the year. And we will take a decision which is more beneficial for the shareholders.
- Harsh Visharia:** Sir, you can propose the dividend and let the shareholders decide that it should be given or not, you can also pass that as a resolution?

Bhavesh Sheth: We are the management and we have a fiduciary responsibility. So we also have to take into account because we know what are the expansion plans we have, we also know what capital out laid maintains and we also know the high profitability that can happen if that money is reinvested and it will be distributed may be whether the timing is now or later.

And if it is more prudent to distribute it now that is fine but if it is more prudent to hold on to it and reinvest and increase the existing value of the shares and distribute it to the shareholders at a later date. In fact a much higher amount then I guess everyone will agree that that is the better thing to do. So I am not saying I am discounting what you are saying.

All I am saying is that it is not something which on conference call at a flick of button without looking at the entire financial scenario and what it is, is something which any management can answer. Probably we are doing a due diligence about what is the right approach.

Moderator: Thank you. We will last two questions now. The next question is from the line of Vijay Dasari, a retail investor. Please go ahead.

Vijay Dasari: Mr. Bhavesh, just wondering earlier few months back New Horizon Fund supposed to put in some funds in to it but unfortunately they have withdrawn. So what I understand from your explanation is we are not looking for funding from any other external agency as of now. We are doing with actuarial and debt from a bank also and the rest will be financed by the vendor who is selling the machine. Am I right?

Bhavesh Sheth: That is correct.

Vijay Dasari: And as of now we are having this Meltblown and Spunbond. So considering their utilizations peaking up as of now. So for next one-and-a-half, three years until the Flat Bond comes there would not be much of revenue growth as per my understanding. What do you say on that?

Bhavesh Sheth: There will be a revenue growth because as you can see that we have done lower tonnage in this quarter though higher margins. So there is still room for us to grow in terms of now doing more tonnage at the margins we have currently. So that means there will be a topline growth as well as growth in the net profitability also. If your question was more about increasing capacity, no we would not have increase in capacity till the time we have the Flat Bond coming on stream.

But we do have buffer even within our current production capabilities to grow and once we reach the ceiling there we will continue to explore other areas wherein we were making more and more and selling more and more products where the margins are higher. So we will continue to innovate. We are not going to be stagnant or stable sort of stagnant at any given point in time.

Moderator: Thank you. The next question is from the line of Abhishek Jain, an individual investor. Please go ahead.

Abhishek Jain: Sir, what would be the revenue guideline for the next quarter?

- Bhavesh Sheth:** The revenue guideline I am expecting the topline to grow and the percentage of net profitability to remain the same. So in absolute rupee terms it would be a higher number. We have done some internal forecasting about the tonnage we want to achieve. It just depends on a combination of factors as to what more prices we are able to get from customers and also what the exchange rate remains. So it is the mixed bag. But definitely in absolute terms also, in absolute rupee terms it will be a higher topline number than what we have right now.
- Abhishek Jain:** Would it be higher than what we achieved in the December quarter last year or somewhere close to it?
- Bhavesh Sheth:** Just a thing I mean I am trying to see what the December number was last year but Mr. Jain again it is not a fair comparison, it is not an apples-to-apples comparison if you are trying to do a topline between last year and this year because last year we only had Spunbond. This time we have Spunbond which is a different kind of product mix which we are selling and we also have Meltblown. So generically speaking at a high level I would say that actually our topline even if it is the same our net profits will be much higher number than what it was in the last quarter of last year.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Pravin Sheth for closing comments.
- Pravin Sheth:** Thank you everybody, all the shareholders who have taken a keen interest and all the investors who have taken interest. I am very delighted that the questions asked were very intelligent questions and it shows that you have a keen interest in the company anyhow thanks again for your loyalty and for your interest. Thank you very much.
- Moderator:** Thank you. On behalf of Fiberweb India Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.