AYM Syntex Limited

Q3 FY18 Result & Other Business Update Conference Call

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Management:	Mr. Abhishek Mandawewala – Managing Director & CEO Mr. Himanshu Dhaddha – Chief Financial Officer Mr. S.M. Khire – Director Operations

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Moderator: Ladies and gentlemen, good day and welcome to AYM Syntex Limited conference call to discuss the Q3 FY2018 results discussion and other business updates. On behalf of AYM Syntex Limited, we have with us the key senior management including Mr. Abhishek Mandawewala, Whole-Time Director; Mr. Himanshu Dhaddha, CFO and Mr. S.M. Khire, Director of Operations. 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 telephone. Please note that this conference is being recorded. I would now hand the floor over to Mr. Himanshu Dhaddha for opening comments. Thank you and over to you, sir.

Himanshu Dhaddha: Thank you. Good afternoon everybody. I welcome you to the conference call on our company's behalf. Let me begin this call with a very short update on the Q3 result as well as the 9 month performance of AYM Syntex which is already in the public domain and also uploaded on our website.

AYM Syntex posted revenue from operations of Rs. 227 crores for the quarter ended 31st December which grew by 21% over the corresponding quarter last year mainly aided by the rise in exports, stabilization of domestic market post GST and the trading business. And also, as you all know that in last year the same quarter was also impacted by demonetization. On nine month basis, it was up by 2% as compared to FY17.

In terms of tonnage, we did about 13,844 tonnes which was about 17% increase as compared to Q2, an increase of 34% as compared to Q3. Nine months FY18 sales in metric tonnes stood at 37,011 tonnes as compared to 38,269 tonnes in 9 months FY17 which is a decline of 3%.

EBITDA for the quarter is at 18.5 crores, 8% of net revenue as compared to Rs 17.8 crores in the Q3 FY17 and Rs 16.5 crores in Q2 FY18. On sequential basis, this quarter was slightly better than the last two. On YTD basis it was around 49.9 crores in FY18 as compared to 79.9 crores in FY17 corresponding period.

EBITDA per tonne in this quarter was at around 13,378 per tonne as compared to 13,866 in the previous quarter. Profit after tax for the quarter ended 31st December is at around Rs 2.3 crores, 1% of net revenue as compared to Rs 5 crores in the previous year same quarter on account of higher depreciation and interest expense due to increase in CAPEX expenditure. For the 9 month FY18, it stood at around Rs 4.2 crores as compared to Rs 31.9 crores in FY17.

The net debt figure stands at Rs 299.9 crores as on 31st December. This has increased by around Rs 6 crores in the current quarter. Total debtors in the book stands at around Rs 69.6 crores an increase over March 2017 figure of around 46.5 crores, mainly on account of higher export receivables. Out of it, debtors above 180 days is only 0.6 crores.

Current ratio is temporarily down at 1.07 on account of tight liquidity situation in the quarter and lower EBITDA. Measures would be taken to strengthen the balance sheet and bring it back by March 2018.

As far as update on CAPEX is concerned, overall we incurred around Rs 15.5 crores CAPEX in this quarter. And on project 5, we have spent around Rs 43.6 crores till 31st of December.

One more update is that, AYM proposed to raise the funds by issue of equity up to Rs. 80 crores to the promoters on preferential basis at a price determined by the Board of Directors in order to strengthen the balance sheet and incur the planned capital expenditure.

With this information note, I am handing over to my colleague Mr. Abhishek who would provide some more business updates on Q3 and 9 months. Over to you, Abhishek.

Abhishek Mandawewala: Thank you, Himanshu. Good afternoon everybody. I will provide everybody with the business updates of the last quarter. I will start with the Nylon and Polyester business which we refer to as the textile business. Margins continue to remain under pressure here; however, there is one significant improvement which is on account of OEE, the efficiency. So from 63% in the last to last quarter we have gone up to 84% in the last quarter. And I am hoping this number will go up further from next quarter onwards. So since the last 4 to 5 quarters, as you know OEE has been down on account of lackluster demand because of demonetization and GST impact, silver lining is that this is now finally getting back to normal slowly and steadily. So phase-1 is almost through.

Now comes the difficult part, which is margin improvement. Another negative news for the Nylon division is that after 11 years the antidumping duty has been discontinued. We are contesting this in the higher courts, but as of now it stands discontinued. This means that there is going to be some inflow of material from Taiwan, China and Korea. We are, however, due to the business development efforts in the last year or so, in a much better position to tackle the impact of this. From the peak, we are now only selling about 60 percent of the peak quantity in the domestic Nylon market. So either these lines have been converted to polyester or to exports and secondly antidumping duty is not likely to affect the FDY segment the most. This is a segment where imports are already coming and this is a segment where we are not present at all. However, nonetheless there could be some margin pressure because of this antidumping duty, but the real impact will only be known from maybe the next quarter onwards.

In terms of the focus area, the focus continues to be on system building to gear up for high quality customers and also the next focus area is business development. In the last quarter, we have added a prestigious account in the denim space, one of the largest denim makers in India which whom we have started bulk business in a new product and we have also commercialized Comfeel fully on the textile side with one line now running on that product on the domestic market and also some export.

On the Palghar side, work is ongoing to make capacity utilizations better. At present, we are operating at about 70% which is still not high enough but it is higher than last year. We are hoping that with the ongoing business development efforts that this number should slowly and steadily inch up. Multiple fronts have started working on this area.

In terms of BCF, I think it is business as usual. Focus is now bringing additional volumes on the 2 to 3 new products that we have developed in the last 12 months. We are also looking to expand our capacity given the good customer response. Project 6 is mainly on account of this. So with this, I would like to move to questions that people might have.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question and answer session. We take the first question from the line of Ankit Gupta, Individual Investor. Please go ahead.

Ankit Gupta: I just wanted to check on the BCF front. Seems almost 5-7 lines out of 8-9 are deployed for long-term contract with customers, how do we pass on the volatility in prices of raw material **in** Nylon and Polyester in case of BCF?

Abhishek Mandawewala: Generally the agreements are all, they made it beforehand. So we have a quarterly system. Any increase/decrease of raw material prices post facto basis, every 3 months the prices just automatically. So if it increases, it is an automatic change in the price on the upward side; if it decreases, it is an automatic change on the downward side. So we don't waste time on every order to negotiate.

Ankit Gupta: Okay. So does it mean that currently the BCF and the Palghar units are compensating for the losses in the Nylon and Polyester division?

Abhishek Mandawewala: I cannot comment on that right now, because we don't give the breakup of the individual three segments.

Ankit Gupta: Okay. And on the Palghar unit segment, out of our total capacity, do we have any longer contracts in hand, that out of contracts we have in BFC segment, do we have such kind of contracts in the Palghar unit as well?

Abhishek Mandawewala: So Palghar business is slightly different model as compared to BCF. I think lot of business development effort is going on to add better quality of customers in Palghar also where you know we can have long-term strategic customers. But still largely Palghar business is, the customers are more smaller in nature and it is a different business model as compared to BCF. But I must say that in Palghar the company enjoys a very strong brand in the conventional dyed space and we have some very strong and loyal set of customers who have been buying from us from a long period of time and they value the services that we offer to them and the consistency of quality and that is what is the differentiating factor that we have in that business.

Ankit Gupta: So that business is not much affected for the time being the prices have launched?

Abhishek Mandawewala: No, again Palghar business is immediate pass through. Any changes in the raw material price on a monthly basis, it gets pass through whether it is an increase or whether it is a decrease.

Ankit Gupta: Okay. My other question was on the textile front demand. Last 2-3 quarters we have one prestigious client from export as well as domestic market, if you can give us updates on how the volumes have been ramping up from these customers and currently, the non-commodity segment started contributing meaningfully to our total revenues from these two segments?

Abhishek Mandawewala: No, not yet. Even in this quarter if you see, there is a small contribution of these customers, but you must understand that this effort has been started in the last year-year and a half and it takes a long time, you know all good customers they don't switch sources in one day. You know they have a long approval process and they want to be comfortable before they ramp up the volumes. So with the customers that we have started and I have mentioned about a few, there the volumes are slowly and steadily ramping up, but if you look at the overall size of the pie, the strategic customers are still contributing a small portion of the overall sales. I am hopeful that over a period of time this will go up, but how much time that will take, that is yet to be seen. But the efforts are on in that direction.

Ankit Gupta: Okay, so it continued to remain less than 5% as you are saying of our total volumes?

Abhishek Mandawewala: Strategic customers would be slightly more than 5% but it is still a small portion as compared to what we would hope it to be. But the important thing is that lot of fronts the development has started, the sampling has started, but customers take their own sweet time and particularly sensitive segments where the entry barriers are high, the entry barrier is high for us also. It is not just for other people, so it will take its own sweet time.

Moderator: Thank you. We will take the next question from the line of Rukun Tarachandani from Kotak Asset Management. Please go ahead.

Rukun Tarachandani: The other expenses have gone up in this quarter from about 54 crores last quarter and last year similar quarter to about 64 crores. So what has led to this increase in other expenses?

Himanshu Dhaddha: So in the current quarter actually, there were some job work charges of around 1.8 crores to 2 crores which is included in the other expenses. In the last quarter if you would see, there was around 1.8 crores of excise duty reversal because as and when the GST came, the stock which was lying with us and the excise duty which was levied on us, we had to reverse it and as per the accounting standard norm, it has to be put in the other expenses. So hence if you would see, it is actually from 56 to 62 rather than 54 to 64. And to that extent, actually topline has increased, so the other expenses, manufacturing expenses has increased in total.

Rukun Tarachandani: Right. And can you share the proportion of exports within the total revenue that was there in this quarter?

Himanshu Dhaddha: So, this quarter export was 38% of the total revenue.

Abhishek Mandawewala: You have to take this with a pinch of salt because there was some one-time trading activity also, which will not be there from the next quarter.

Moderator: Thank you. We take the next question from the line of Ayush Mittal from Mittal and company. Please go ahead.

Ayush Mittal: I wanted to understand that as the crude prices have moved up, has there been a corresponding increase in your realizations?

Abhishek Mandawewala: Yes, certainly there has been a corresponding increase in realization as well as the raw material prices. So particularly Nylon, last quarter I had mentioned that prices have started going down. But again with the recent hike in crude oil, there is again an upward trend in Nylon. Similarly on Polyester also, raw material prices have started moving up and correspondingly finished good prices are also up. But there is sometimes always a lag and that might lead to issues, you know margin pressure. In some cases, margins are permanently suppressed but in most cases I think the prices should be passed through. But overall the sale has also gone up, if you are trying to ask that, the sale has gone up. One of the reasons for that is also that revenues has gone up, the raw material price has gone up.

Ayush Mittal: Yeah. But I see that your volume has also increased. So I was trying to like that tonnage I think it has increased by almost 30%?

Abhishek Mandawewala: Correct. But again as I said earlier, you have to take that with a pinch of salt. There is a one-time trading activity, trading revenue in that. So if you remove that, then it will not be as high as 17%.

Ayush Mittal: What is the total borrowing that we have as of now? Is that 299 crores?

Himanshu Dhaddha: Yeah. Total internal debt is around 300 crores.

Ayush Mittal: So there is quite a sharp increase versus the last year if I see, so what has happened to this debt?

Himanshu Dhaddha: So as compared to last quarter if you will see, there is only an increase of 6 crores, but over a last year basis if you will see, since the EBITDAs were not as per our expectations and we had some planned CAPEX expenditure which we continue to do so at around 15 crores-20 crores per quarter, so overall net debt has increased to that extent. It was around 240 crores-250 crores as on March, it has increased to 300 crores.

Abhishek Mandawewala: So couple of points that I would like to make. Number one is, the 299 crores is the figure that which is our internal classification of debt that is what we call as the internal debt. There we take all the LCs and some of the items which also come under current liabilities we consider that as debt. So in the books, the last year's debt, it might not be, the actual significant jump is not to the extent that you would imagine, that is point number one. Number two is our working capital is also over the last couple of years gone up drastically. So if you look at our debtors, if you look at our stocks and if you look at our government receivables which is mainly on account of GST, so that has gone up, particularly December end. But we are hoping that all those things will start getting back to normal over the few months. So that impact has almost been about 40 crores.

Ayush Mittal: And I would come back to this question again like as we have been continuously putting in CAPEX and the last one year, the environment was pretty bad for the whole industry but now I have seen environment is improving, do you see volumes picking up going forward? Better efficiency utilization like you mentioned in your opening remarks, like I think you mentioned like we are at 84% or something.

Abhishek Mandawewala: Correct. That is the textile. The 84% was the textile utilization. So there are couple of different ways in which I would like to answer this. Number one, CAPEX will go in areas which are where we have added strategic long-term customers or innovative products and where we are getting the expected return that we would like to get in the long term, that is point number one. So if you talk of textile business for example, there our margins are still under pressure. So instead of adding CAPEX in that area, the first job is to actually convert the product mix into a product mix that can actually deliver as a good quality margins before we start talking about doing CAPEX. But in areas where we have a strategic customer base, where there is some sort of barrier to entry for other people, where we have a long term customer base, in those areas certainly we continue to spend money on CAPEX.

Ayush Mittal: What I was asking is do you see better traction in those utilization of your capacities and these initiatives that we have done?

Abhishek Mandawewala: Absolutely. So in textiles, as I mentioned in my opening remarks, we certainly feel that utilization hopefully should increase going forward. Key question is at what margins are those utilizations increasing? In BCF, we are running at fairly good utilization. In Palghar, it is sales bottleneck. So in Plaghar, we have the capacity is available but since we have expanded about 1.5-2 years back, we are slowly and steadily ramping up those sales volumes. It is not easy. So we are at about 70% which is still higher than last year and slowly and steadily we can expect that every couple of quarters if we can increase by 5% that will be a good achievement.

Ayush Mittal: And Polyester textile business that are you getting the expected results that you had been doing the work on that side?

Abhishek Mandawewala: To be honest, I would say that the efforts are on, but yes, it is not converted into results. So if you look at the margins, if you still look at the volume of strategic customers in the overall pie or the innovative products, it is still a small percentage as compared to what we would like.

Ayush Mittal: Okay. And about this announcement about raising of funds up to 80 crores, if I look at this number in relation to your market cap, it is a very high dilution and your promoter holding is already 65%, can you elaborate more on this, what you plan to do and what is it for?

Himanshu Dhaddha: So actually, we have proposed infusion up to 80 crores. The Board will decide how much actually needs to be put in and it will be in the compliance of company laws and SEBI. So what I understood from your query, is it going beyond 75% or something like that, right?

Ayush Mittal: Both ways, like first is the amount requirement. Is it like a specific amount that you need to raise for some future project or…?

Himanshu Dhaddha: It is a combination of both. It is more towards strengthening the balance sheet as well as incurring for the planned CAPEX expenditure. The Board is yet to decide on the amount and all.

Moderator: Thank you. The next question is from the line of Nishant Agarwal from B&K Securities. Please go ahead.

Nishant Agarwal: Sorry sir, actually I joined late. So that is why there is some basic questions also. Sir, we have 28% growth during the quarter. And after that, looking this strong revenue growth, our margins have not improved comparing to last quarter. So we are not looking that any operating margin leverage in your quarterly results. Sir is any reason behind that?

Abhishek Mandawewala: So you know as I said earlier there is some low margin trading activity that has gone on in the last quarter. That has actually raised the revenues and further depressed. So as an overall margin, that margin is much lesser than the normal margins of the business. So the growth that you are talking about is slightly skewed because of this trading business. That will not be there in the next quarter. So next quarter will be a slightly more realistic figure, will be a more realistic number in terms of the sales as well as the percentage margins.

Nishant Agarwal: Can you give some guidance of revenue growth for the future, means…

Abhishek Mandawewala: No.

Nishant Agarwal: Or anything about trading sales, what we have for this quarter?

Himanshu Dhaddha: So going forward there will be no trading sales as well.

Nishant Agarwal: But you are saying that 28% growth is because of the trading sales also right?

Himanshu Dhaddha: Part of it is because of trading business.

Nishant Agarwal: So, is it possible to provide that number, so that we can…

Himanshu Dhaddha: I don't have that number as of now. But roughly it is around 10%-12%. So out of 28%, you can say 10%-12% growth is on account of trading.

Nishant Agarwal: And sir second is you have also raised 80 crores from the promoter, so do we have any CAPEX plan or anything lined up with you?

Abhishek Mandawewala: Nothing unexpected or extraordinary. Whatever has been discussed, partly project-6, but big reason for raising this capital is to improve the quality of balance sheet.

Moderator: Thank you. The next question is from the line of Abhishek Jain from Arman Global. Please go ahead.

Abhishek Jain: Sir one question. What will be your capacity after project-5 and project-6?

Abhishek Mandawewala: I don't know how to answer that question, Abhishek. We have 3 different businesses and we don't spell out individual numbers.

Moderator: Thank you. We take the next question from the line of Rahul Kumar from India Capital. Please go ahead.

Rahul Kumar: I just wanted to learn, there was a better way to raise the money. You should have done a right issue or a preferential to some outsider. What is the strategy behind giving preferential to the promoters again? Thanks.

Abhishek Mandawewala: So we had explored all the options. So it is a fairly lengthy process and quantum required is small, hence we finally came to the conclusion that it is easier to go for a preferential, we had rights was discussed but after due consideration given that there are a lot of norms that need to be followed, we finally decided that the preferential would be much easier, given the time limit and all that we decided that preferential is the best way to proceed forward.

Rahul Kumar: And how much debt is there in the books right now and what kind of CAPEX we are planning for the next year sir?

Himanshu Dhaddha: So overall Internal net debt is around 299 crores, I would say. In the balance sheet if you will see, debt is around 240 crores. CAPEX plan in the next 1 or 2 quarters, you can presume that it would be at the same rate of around 20 crores per quarter which we have been incurring in last few quarters also, 15 crores-20 crores.

Rahul Kumar: So you are believing that this kind of debt equity ratio is manageable in the long run, thanks.

Himanshu Dhaddha: First of all with the preferential, hopefully once the broad approves, the debt equity ratio definitely improves, but in the long run we would definitely like to have a better debt equity ratio.

Moderator: Thank you. We take the next question from the line of Maunil Desai from Turtle Capital. Please go ahead.

Maunil Desai: Just one question, when I am looking at the numbers over the last few years, one thing that I just wanted your feedback on was that our fixed asset turns have gone down substantially. If you look at from 2011-2012-2017 because we have incurred lot of CAPEX which part of that was more for creating formal infrastructure and things like that. But at the same time, our texture of our business is also changing. So I mean, is the current asset turns indicative of what it would be like in future or you think that it can be further suppressed or further improved, any views on that?

Abhishek Mandawewala: To be honest, fixed asset turns is not something that we internally measure. This is something that I will definitely look at, but you have to remember that in the last year-year and a half, lot of CAPEX has gone towards non remunerative, non-capacity building kind of investments and one of the things that I feel is perhaps because of this, there has been some decrease in the fixed asset turns. Of course going forward there is going to be a greater portion of CAPEX which will go towards, let us say, building of capacities and that should hopefully take the fixed asset turns back to where they were positive earlier.

Maunil Desai: As a context thing, which I am asking this is because I think I remember few concalls back we discussing that the threshold for investing in a kind of more strategic businesses around 20% ROCE. And when we look at that number, naturally we have some kind of projected margins in mind and some kind of asset turns in mind and some debt equity in mind. So I mean, so what I am trying to get at is that, is this heavy thought process or you think that historically one is a true representation of what we will achieve going forward because as you said we have kind of put up lot of capital in some of the non productive, non revenue generating asset. So you think that we can reach back to whatever we were at around 2012-2013 levels?

Abhishek Mandawewala: Very hard for me to answer that question. The only thing that we can say is, I cannot comment a lot about the past. But incrementally that is the goal as you mentioned right now. So that is the first point and second thing that we need to remember is that, in terms of return ratios, let us a say a significant part of the returns is also coming from a part of the business which you are trying to change, which is Nylon. So when that profitability gets depressed, it sort of squeezed the picture of the entire business. So the only change that has really happened is that the Nylon margins have shrunk as compared to what they were. In terms of financials, the Nylon margins have shrunk significantly and that has had an overall impact on the EBITDA margins. The question is whether how quickly we can get back to the old margins, but that is not going to be looked at in the same way as compared to Nylon. So this is going to be more strategic in nature. It is going to take time, but hopefully most of the investments that we do incrementally going forward will be more durable and sustainable in nature where we don't have to worry about these kind of things. So what we need to be very confident about incremental returns rather than…

Maunil Desai: Understood, it is more of an incremental return of whatever new capital that we deploy on it, what should be measured on.

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

Pratyush Mittal: I was looking at the website about Comfeel, we would like to know more about this product and also how is it different from the Wonderfeel that we introduced sometime back?

Abhishek Mandawewala: Okay, we can't talk too much about the products in detail, but there are two different products. So Comfeel is a brand that we have launched in all the segments. In our textile segment, we have launched it. We launched it in our BCF segment as well as in our conventional dyed segment. And Wonderfeel is a type of yarn which is used in the carpet space. At this point of time, that is all I can share Pratyush.

Pratyush Mittal: Comfeel is just rebranding of existing projects or is it a completely new product?

Abhishek Mandawewala: It is new product. So we have been working on this for the last I think year and a half or two and we have launched it and it is now that we are starting to get traction and commercial volumes in this space.

Pratyush Mittal: In the last concall we mentioned about some semi-commodity product that we said was in the much significant higher volumes. Though it was not contributing to the bottom-lines and about UK customer that we have added, so any update from these two developments?

Abhishek Mandawewala: So the UK customer continues, in fact they have increased their exposure with AYM and they are slowly and steadily increasing their volumes and they are talking about development of alternate products, so that is a strategic customer for us. In the semi-commodity that was more in the Nylon space, there those volumes continue. So one line we have gone to two lines now and you know last time I had mentioned that this is actually the base on which we are actually going to, to the similar customers introduce slightly higher range of products and again sampling has started in that area. In fact, one of the first orders are going to be executed in the month of January.

Pratyush Mittal: Okay. These are for domestic market or export markets?

Abhishek Mandawewala: Both are exports.

Pratyush Mittal: And Comfeel is also totally export?

Abhishek Mandawewala: No, it is domestic and export.

Moderator: Thank you. We take the next question from the line of Raja Sethia, Individual Investor. Please go ahead.

Rohit: This is Rohit. So I have couple of questions. So on your BCF side, Abhishek, would it be possible to share what kind of realizations would you get?

Abhishek Mandawewala: Difficult to do that Rohit.

Rohit: So on BCF again, so do we only sell BCF to Welspun or do we also sell some other products?

Abhishek Mandawewala: No, we sell BCF and other products to Welspun.

Rohit: Okay. So basically the context of this question was that, we are doing more CAPEX on the BCF side and Welspun, one of the customers which we have would sort of go away in sometime. So in that context, just wanted to understand are we confident enough to get, fill that capacity because we are running at almost full utilization if I understand you correctly. So one customer moving away and then doing more CAPEX, so just want to understand that.

Abhishek Mandawewala: So if you look at the overall pie, no single customer is more than 10% and even Welspun is less than 10%. Similarly in BCF also they occupy less than, they occupy smaller share let us say as compared to other customers and I don't think the impact of losing Welspun as a customer will have a major impact in the BCF space.

Rohit: And in your business, what would be your maintenance CAPEX that you would generally incur?

Himanshu Dhaddha: It is around 6 to 7 crores per year.

Rohit: Okay. So just picking up from the question that I think the previous participant was asking. So in the last 4 years you have done around 240-250 crores of CAPEX. So gross block with CWP has changed by that amount in last 4 years. How much would you say is non productive and how much would you say is in productive CAPEX, any rough estimate?

Abhishek Mandawewala: That is something that we will have to work out. This is something that we will try and work out. So we have not looked at it from last 4 years point of view. So there are, one point of reference I can definitely give you is a lot of that has gone into let us say building and lab and things like that. Some of that has gone into upgrading of machinery and some of that, in the first and second and third, maybe the first and second year, let us say in that 2014-2015 period, some of that CAPEX has also gone in adding the capacity which is actually not giving us the returns in terms of margins which some of that CAPEX which went on the Nylon space, commodity nylon space, so I think there is also some element of that CAPEX there. So it is a mixture of all three. But a good part, I mean it will not be more than 50%-60% but certainly, I mean it will be a good some, but it is something that we will have to go back to and look at it and then come back to you.

Rohit: And just last two questions in the balance sheet in the gross block last year's 2017 there is some impairment on the gross block side. So anything that, I just wanted to understand that, one. So if you can just answer that and then I will just move to the second question.

Himanshu Dhaddha: I think it was a small impairment amount I believe. Are you referring to that?

Rohit: I think it was a 50 crores kind of number if I am not wrong, 54…

Himanshu Dhaddha: No, there is no such impairment of 54 crores or so.

Rohit: So I am looking at the notes, so I don't know if it was note 11, so it says that impairment loss at 31st March, plant and machinery 52 crores and the overall number is around 54 crores. I don't remember seeing this number in the earlier balance sheet, that is why I sort of wanted to know.

Himanshu Dhaddha: I will just recheck it and confirm it. It might be the overall balance rather than only one year.

Rohit: Yeah. I think so, but I have not seen it earlier. So I just wanted to check if there has been…

Himanshu Dhaddha: That is because of the disclosure requirement has changed in the fixed asset part from the company's act point of view. So they want to maintain it separately from the last year onwards.

Rohit: Okay. So earlier it was part of depreciation only?

Himanshu Dhaddha: Ya, could be. Will check and get back

Rohit: Okay. And just wanted to know in Nylon, how are things now? What is your outlook? Have things improved from the last time we spoke or if you can give some update?

Abhishek Mandawewala: No, I mean if I look at it overall, then with the antidumping duty, I would say that it has not improved, but certainly volumes are back to normal. I doubt margins will ever go back to where they were a year and a half back. But in terms of volumes where we are struggling to even sell the material, at least that has come back to normal. And we are running our lines in a smooth manner. So from that perspective, it has improved but margins are still an issue. So the only answer to this is actually business development and new products in the Nylon space and getting out of the commodity space and entering semi commodity and specialty business.

Moderator: Thank you. We take the next question from the line of Manoj Shah, an Individual Investor. Please go ahead.

Manoj Shah: Sir, my question is around one of the expansion the company applied few years back. As per the information available and environment clearance website, it is not easily available, certain information is available like company got the environment clearance, just wanted to ask like, is the company going ahead with this expansion or what exactly is the plan on it? I will just read out the title for you. The synthetic filament yarns at 150,000 TPA and POY master batches at 600 TPA, which is under the category of man-made fiber other than the rayon.

Abhishek Mandawewala: Generally we take the permission for our entire scale and for the entire, so that for long duration we don't have to keep applying for permissions again and again, it is a costly affair. So generally we take the permissions beforehand. Everything that we are discussing will fall within the gambit of those permissions.

Manoj Shah: Okay. So my question is this company going ahead with expansion or not?

Himanshu Dhaddha: Ya, slowly and gradually we are going ahead with those expansions, but if you would see those numbers and compare that it will come in 1 or 2 years, it is not the case. So it is a long term plan and the clearances are being taken on that effect that for a longer period what capacities and all you will need.

Manoj Shah: Okay. So do you have any rough idea. So let us assume the company go ahead and then complete this expansion plan, what would be the revenue from it, I mean let us assume this expansion happens?

Abhishek Mandawewala: We have to talk about and it will take many years to complete that expansion plans.

Himanshu Dhaddha: It is very futuristic.

Manoj Shah: Because I thought the 80 crore company is raising some promoters, I thought it is for this purpose.

Himanshu Dhaddha: No, I think that we have cleared in the beginning. It is more towards balance sheet strengthening and the planned capital expenditure. So there is no unplanned or unpredictable expenditure which will now come which we have not discussed yet.

Manoj Shah: Okay. There are so much of a volatility in the raw material prices, so do you have any long term contracts for raw materials?

Abhishek Mandawewala: No, we don't have any long term contracts in raw materials.

Moderator: Thank you. We take the next question from the line of Ayush Mittal from Mittal and Company. Please go ahead.

Ayush Mittal: Abhishek, in reference to the previous discussion about the significant increase in gross block over last 2-3 years like you answered that a significant part of it went towards Nylon. And if I reflect upon your commentary, I think for more than a year or almost for couple of years you have been very upfront and negative about this part of the business, that it is a commodity and you don't want to be present in it. So why haven't we been able to take major corrective action in terms of selling of maybe this plant machinery or converting much more portion of it. I mean in past when I have seen concalls, then when we used to have more of the polyester lines, we used to convert it to Nylon within a quarter or two quarters when the demand was there, why can't we do it the reverse way now? Or why can't we sell it off the problem area or get over it in some ways now?

Abhishek Mandawewala: So couple of things. It is not easy to sell off. So selling off would mean that whatever contribution we are making, we will stop making that contribution but the fixed cost will remain the same and hence the margins will actually become worse. So we are not in a position to sell off and reduce our volumes because that will have a further negative impact on the margins. Now conversion, when we were going from polyester to Nylon, the nylon market, the market that we entered in nylon was a commodity market. There are no barriers to entry and you can just convert the line and from tomorrow you can start selling Rs. 2 and Rs. 5 cheaper and you will be able to grab market share from competitors. And nylon was selling like hot cakes and because of the supply demand mismatch and because of the antidumping duty, the margins were so high that it was very easy that every month you keep converting lines and you start raising your margins. Now the reverse is not necessarily true. Now, first of all we don't want to, after 3 years we don't want to be in the same position that we take some decision and at the end of 3 years again we are back to the same square one where here also margins are shrunk. So from the last year, year and a half, the focus has been, how can we add good quality customers to our portfolio and how can we add business which is slightly more sustainable in nature where there are certain barriers to entry. Now this business is not something that in one day you can go and start grabbing the market share by reducing Rs. 10. So for example, the business that I spoke about last quarter that we added a customer in UK, so the sampling went on for almost a year and a half or maybe actually two years if I am not mistaken. So after long duration, the customer has decided to place the order and even the order that he is placing, it is very small in relation to our entire capacity. Slowly and steadily over the next year or two, he will ramp that up and then he will give more programs, more sampling and over a period of time that volume will build up after the trust is built between the two companies. While when we went to nylon, it was an easy journey. The next part of the journey is not as easy as the one that we had in nylon and that is why because it is not easy, it is going to be significantly more sustainable as compared to what nylon was.

Moderator: Thank you. We take the next question from the line of Rohit Poti, Individual Investor**.** Please go ahead.

Rohit Poti: Sir, just I wanted to understand little bit more on how you decide on which product to innovate on in each of your segments. Is it led by sales feedback, customer feedback or is it based on any exhibitions or conferences that you go to and if you could share some more information on your R&D department on who you hire, what is the hiring policy and how do you incentivize this people on a long term basis given this is a hit or a miss kind of thing?

Abhishek Mandawewala So, generally the new product development is dictated by a mix. Some of it is internal, some of it is external. Largely I would say that in the last 6 to 12 months, it does become external which means that based on the feedback of the customer we are developing new products. In terms of hiring policy, I am not certain whether I can share. All I can tell you is that, we have a full fledged R&D team which comprises of several MTechs, BTechs and PhD, Engineers, who are working on our new products.

Rohit Poti: Okay. Thank you. In the last couple of years, I have seen that the management has been talking both in the annual report as well as in the concalls about lot of hiring that has been happening, would I be right in thinking that, a good portion of it is in the R&D department and then the sales department, is that right?

Abhishek Mandawewala: I won't say that. I think R&D and sales, certainly we have really bulked up in those two areas, but I think even production and quality and commercial, almost every single area, operations almost every single area we have recruited people.

Rohit Poti: So this is more of curiosity from myself because from what I see, what you guys are doing is not something common across the companies that I have seen in India. So just wanted to know, I mean is there a particular company maybe somewhere not in India necessarily that you are trying to emulate or that is inspiring the management to go down this path, just to understand better your thinking and more on those lines, that would be helpful. Is somebody abroad who you admire and who you direct emulate over the next 10-20 years, so…?

Abhishek Mandawewala: Yeah. You can look at companies like Aquafil or Trevira, I mean these would be the kind of companies based in Europe that we would like to, I mean these would be our role models basically.

Rohit Poti: So second one you said is Trevira, please spell that.

Abhishek Mandawewala: TREVIRA.

Rohit Poti: Thank you. And one last question is, I mean so the transformation of the company has been to moving to business in high entry barriers where the company buying that currently easily and now once you enter into the fold as a major supplier, as a supplier to strategically important companies, I was wondering within the basket of companies that your customer is sourcing from how do you further increase the assisting cost and what is the strategy there, in addition to service, just wanted to understand on the cost basis, are you among the lowest cost as compared to peers, what is the thought process there?

Abhishek Mandawewala: No, certainly not. We are not the lowest cost players. So if you look at companies like Reliance and Velosa and Alok and these kind of companies, they have volumes which are 10 times, 20 times our volumes. So there is absolutely no way that we can divide our fixed cost in the same way that these type of companies divide. So we have to look at different niches in the market where being a large player is actually a disadvantage and then of course the basics, we need to follow the basics that try and have creative new product and make sure that you have a reliable product offering with reliable quality, reliable delivery and good quality service. I think that is the basic for having success in any business whether textiles or anything else.

Rohit Poti: Got it. Can I squeeze in one last question, if you have time?

Abhishek Mandawewala: Yes, please.

Rohit Poti: So this is just purely on the sales and marketing side, if I could understand the incentive structure that you have, maybe division wise or maybe if you have the same structure across the company, if you could share that would be very helpful to understand?

Abhishek Mandawewala: I would not be able to explain compensation policy on call, I am sorry about that.

Moderator: Thank you. Well, that seems to be the last question for today. Members of the management, do you have any closing remarks to make?

Abhishek Mandawewala: So again this is a difficult journey that we are going through. As I said last time, the long-term strategic direction remains exciting, but one should not expect any miracles in the short term but as I keep saying anything that is great is going to be tough and if it wasn't tough, it probably wouldn't be great. So I think as shareholders and as management also, for us patience is the key. So thank you very much for attending the concall and we look forward to seeing you next time.

Himanshu Dhaddha: Thank you very much everybody.

Moderator: Thank you very much. Ladies and gentlemen on behalf of AYM Syntex Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.