AYM Syntex Limited
Conference Call
Q3 FY21 Results & Other Business Updates

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

Moderator: Ladies and Gentlemen, Good Day and Welcome to the AYM Syntex Limited Conference Call to discuss the Q3 FY21 results and other business updates. On behalf of AYM Syntex Limited, we have with us the key senior Management including Mr. Abhishek Mandawewala, MD and CEO, and Mr. Himanshu Dhaddha, CFO. 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. Before we begin, I would like to state that some of the statements made in today's discussion may be forward-looking in nature and may involve risks and uncertainties. I would now like to hand the floor over to Mr. Himanshu Dhaddha for opening comments. Thank you, and over to you, sir.

Himanshu Dhaddha: Thank you. Good Afternoon and I wish you all a very happy and prosperous New Year and also welcome you to the conference call on the company's behalf. Thanks, everyone for taking this time to attend this call. I wish and hope that every one of you is safe and healthy. Let me begin the conference call with a very short update on Q3 results, which are already in the public domain. AYM Syntex posted the revenue from operations of 294 crores for the quarter ended 31st December, which is actually the highest quarterly revenue achieved in the last few years. And this is an increase of 38% over the previous quarter and an increase of 11% over the corresponding quarter last year.

YTD we posted a revenue of 598 crores, which is lower as compared to FY20 YTD previous year due to decrease in sales in Q1 on account of COVID-19 lockdown. The operations of the company improved during the current quarter with the increase in demands in all segments restoring it back to the pre-COVID levels in the quarter. Increased utilization of plant capacities was also seen on a quarter-on-quarter basis in all parts of the business. Palghar too demonstrated a good improvement in all operating metrics.

Margins improved in a large part of the business on account of improved product mix and cost optimization initiatives. The rise in raw material prices has also helped the margins. MORM 47% has improved as compared to last year and is expected to improve further gradually. In terms of tonnage, we did almost 16,185 tonnes which were ever highest among all the quarters in past years. Exports in the quarter of December was almost 116 crores as a percentage of NR it was 39% of revenue. Operating EBITDA for the quarter states at 35.6 crores which is 12% of NR as compared to 21.6 crores in Q2 FY21 and 26 crores in Q2 FY20, which were on both at 10% of NR. Exports continue to drive profitability and MORM made to stock business was also aided by a rise in raw material prices. EBITDA per tonne has also seen an improvement and which was at around 22,000 per tonne as compared to 17,460 per tonne in last year same quarter. Profit before tax stood at 16.8 crores for the quarter ended December as compared to 2 crores in Q2 FY21 and 4.7 crores before exceptions in Q3 last year. Finance cost has reduced in the current quarter with a lower working capital requirement as well as net debt reduction. The net debt figure stands at 207 crores as on December 20, versus 232 crores in March 20.

The cross debtors in the books also stand at a lower level as compared to March it is at 98.4 crores and out of this, debtors more than 180 days is only 3.2 crores. The current ratio excluding the term liabilities has improved to 1.28 in December 20, versus 1.21 in March 20. As far as CAPEX is concerned no major CAPEX has incurred in the current quarter apart from some plant improvement operational CAPEX going forward, the strategy would be largely to incur the maintenance CAPEX or some de-bottleneck CAPEX can be considered if the demand sustains for few quarters. With this information note, I'm handing over to my colleague, Mr. Abhishek, who can provide you more business updates on Q3. Over to you Abhishek.

Abhishek Mandawewala: Thank you, Himanshu. Good afternoon, everyone. Hope everyone in their families is keeping safe and want to also take this opportunity to wish you and your families and colleagues a very Happy New Year. I'm happy to announce that we have hit record profitability this quarter. So today, unlike the previous quarters, I won't talk too many details about the individual segments, but I will spend more time at the overall level and perhaps you can ask any questions if you have on the individual segments of flooring and yarn dyeing Palghar and the POY TEX.

So there are several tailwinds that have aided the last quarter, some of which are external, and temporary and some of which are internal and permanent. Let's say, the first one raw material prices which rose sharply in Q3 from Q2 levels and all this inventory has given us significant gains in this quarter, particularly nylon where we are significantly long on the raw material. And there is, and a positive price impact on finished goods is reflected immediately, so leading to large inventory gains. There is a huge tailwind of demand, the likes of which I haven't personally seen in the last five to six years of my time at AYM. My view is that this is partly because of the pent up demand as a result of destocking that took place in the first two quarters as a result of the pandemic. Also, as people are held up at home, they are spending more money on things as opposed to eating out or going to movies, or travel. Going forward some of this demand might moderate. At the same time, however, with passing quarters the business is getting more robust as the percentage of strategic and innovative products is increasing and operational improvements and cost reductions are coming on stream.

We were able to squeeze out far higher output at efficiencies and speeds not achieved before in the history of the company in the last quarter, which will lead to a permanent bump up in the fixed asset terms of the company spinning, texturizing, twisting, cabling, resetting almost every area which I have named or not, we saw record throughput due to various value engineering projects taken up over the course of the last two years. Some of that operating leverage is starting to reflect in the numbers as you can see in the improved margins. I expect many more throughput improvement initiatives to come on stream over the next few quarters. Leading to further operating leverage, a lot of work has been done on cost reduction. I have been speaking of this for the last few quarters and initiatives are starting to manifest. These include recycling and reusing of waste, harder negotiation with vendors, energy and utility optimization, and lower consumptions through value engineering. Most of these are permanent improvements. Even in this area, I feel that there are several low hanging fruits that are yet to be exploited. These pan areas of reducing utility consumption including power, water, coal, etc, reducing downgrade and waste generation which have already come down to record levels. But we foresee that we can do even better in this area and adding more suppliers making our supply chain more robust. Adding more suppliers that are more competitive & a lot of approval work is happening to add new suppliers who are more competitive than our current suppliers.

I'm happy with the progress on the product mix also, our innovative products such as Wonderfeel, Industrial Yarn, Comfeel, Solution Dyed Nylon, Ecose, Silkenza, EQ Dyed Nylon continues to grow overall in volumes. We are in the process of filing more patents then we files in the last quarter. In the last quarter we filed three patents, and we are in the process of filing more patients in coming quarter for products which we will launch in the coming quarters. As I had mentioned before the elevated demand has also allowed us to develop and execute our outsourcing strategy. This is advantageous for two reasons, as demand fluctuates we may able to maintain higher utilization levels in-house and maintain some of that operating leverage. And secondly, we are able to reduce the capital intensity in the business and it forces us to incur incremental CAPEX only when rates of return are higher and the product cannot easily be outsourced. Either because of quality requirements or because the product is novel or new and thereby has higher margins. So with this, I will hand it over to all of you for any questions that you have.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Dhwanil Desai an Individual Investor. Please go ahead.

Dhwanil Desai: Congratulations for a wonderful quarter. I have three-four questions. To start with the first one, when I look at your numbers the gross margin actually have remained in fact 46%, 47% range. But you mentioned that there is some inventory gain on the nylon side. So if you can quantify that, it would be helpful at least give some color if not absolute numbers.

Abhishek Mandawewala: It's very difficult for me to quantify at this stage, it will only be a rough approximation which I don't think would be fair to share. So it's difficult for me to quantify the gains, of course our nylon business is now significantly lower part of the overall pie as compared to what it was let's say when we started this journey four or five years back, but nonetheless, it is still a figure that cannot be ignored, but very hard to estimate.

Dhwanil Desai: Okay. So, let me put it differently. So, with the scale and our cost efficiency and higher throughput, you have reached this 12% margin. Now, and as you say there is some part of inventory gain, which is built in with this margin. So, going forward and we were already 9.5%, 10% even last quarter right. So, I'm saying that, with the demand tailwinds, with the improved product mix do you think that this margin can be sustained. At least based on the variables that you see today?

Abhishek Mandawewala: See, Dhwanil as I mentioned, I have outlined both the external & internal factors, so I guess it's going to be a balance of both of them. On one side you have got things that are not in your control whether it is a demand or whether it is raw material prices, and on the other side, you've got product mix, throughput and cost, which is under your control. So, all I can say is that I am happy with the progress that we have made over the last two years. And, this continues to give us gains, but most importantly, there are a fair amount of levers that we have not yet exploited. So, today, the internal targets that we are setting for ourselves is higher than what we are currently doing. And there is a way forward how to achieve those targets so it's not just a target which is made in the air and that we have to get there. Rather, there is a clear plan that, how we are going to further improve the throughput & bring the cost down. So all those initiatives are laid down, which is going to be done some 12 months later. We are already in the process of executing, many have been executed and many are in the process of executing. So just to give you an example, the texturizing area is one area for us, we were doing roughly around EPI, if I go back in the year 2016-17 numbers, we were doing about let's say 43, 44 tonnes of output per day and this month we have even touched in some of the days 86, 87 tonnes. So it's almost double and honestly, in the last four years, we have not even invested Rs.1 in texturizing. So all those are straight away throughput gains & if demand sustains I am confident that some of this throughput improvement initiative we can probably make it better but then we have to balance it against the external factors of demand, how much the demand is going to remain, how much it will fall, what about the raw material prices. So there are lots of variables which is being invested, you are very well aware of over the last four to five years.

Dhwanil Desai: Okay. Got it, that's helpful. So, taking the thread from there on the demand side, if we listen to the commentary from the peers, at least on the polyester side, but there is a mention about the China shift to some extent being reflected in the uptick in demand for the yarn, all kinds of yarns in India, so do you share that kind of a view or you think that is more like a pent up demand, which is playing out?

Abhishek Mandawewala: Every time something good happens, people find reasons why the good thing happens, immediately if the news is on their lips they will try to justify it with those reasons. Sometimes, a few years later you realize that, either those were the reasons or sometimes you realize that it was just what I call narrative that maybe in real reason it is something else. So, it's very hard to say whether, really the shift is happening from China & moving to India, or no. I feel personally that on the ground, three, four months during the pandemic there was absolutely no buying, factories were shut, the customers were not buying anything & we were not purchasing anything. So, all the pipelines became completely dry and suddenly then the demand came and people started ordering like crazy and the material was not available. And also, if I just apply some common sense people are sitting at home not just in India, but all over the world. And everybody has a limited disposable income, and they are spending more of their disposable income on buying things, either clothes or carpets or something else, because they are not spending that money in going out as much or watching movies or going on holiday, etc. So, I feel that immediately, going from having a 30% growth from quarter 2 to quarter 3, it cannot be because suddenly the volume has moved from China to India and then in another quarter nobody is going to do 30% of the volume. So, there is some element of that, but I feel this is my personal view, I might be also wrong, but my view is that this is the reason why the demand all over the world has gone up and we should be able to manage the demand now. So we need to make sure that we don't over invest and go overboard. So, the way we are trying to deal with it is that, excess demand which we can see, we are trying to outsource it. So, if it comes down, then to that extent, the impact on our own utilizations will not be as heavy. If the demand comes down, definitely utilization will automatically come down in some areas where we are not outsourcing, but we are trying to manage it by outsourcing as much as possible.

Dhwanil Desai: Okay, and last question. So if you can give an update on the BCF and Palghar in terms of capacity utilization and how are your efforts on the Palghar side in terms of marketing and getting newer products and getting the capacity we'll be moving on. So, if you can throw some light on that?

Abhishek Mandawewala: Sure. So, I will start with Palghar, and I was very concerned about Palghar last two, three years, but last six months the way we have bought our act together, the way our team has put in their efforts and worked hard. So now, it's not a question of just profitability which has improved or business level has improved, but the direction is very very important. So there is a clear direction in the business now, which was a year back we were struggling, with what we want to do with this business, how we are going to grow it. So that clear direction is there, there are several products which are under development, and these products are not some rocket science products, they are already existing in the marketplace, we are just sort of trying to gain share, we are doing it in a slightly different way in order to save the cost and etc, but those products are already there, it's not some rocket science to create the demand of these products, so clear direction from several areas where I feel that utilization will go up. So on average, the utilization of Palghar is slightly above, but it is still not jumped up to that extent, the margin increase in Palghar is because of the reduction in the cost. In terms of Rakholi utilization, in last quarter we were more or less able to utilize almost every single machine throughout the course of the quarter. The key thing now in Rakholi is how are we able to get more output from the machine than what we are getting. So either we improve the efficiencies, for example in texturizing we can if you are running a machine at 500 meters per minute, you try to see whether you can stabilize it at 600 meters or 650 meters per minute, or the change over time maybe it is eight hours, you try to bring it down to four hours. So, these are the ways in which you are able to get more out of the machine and improve the overall returns of the business.

Moderator: Thank you. Next question is from the line of Ankit from Bamboo Capital. Please go ahead.

Ankit: One thing I wanted to understand here Abhishek is, we have been talking about value-added products in the past three, four years and how we as a company want to grow its proportion. And also we want to reduce dependence from the commodity products as much as possible. So, at this juncture will it be possible for you to give us a sense of how much has been the proportion of these products in our sales, and how has been the growth rate of this products, over let say this quarter compared to last quarter compared to Q3 FY20?

Abhishek Mandawewala: Q3 FY20 you mean last year?

Ankit: Last year, this year like what has been the growth rate of this product, in terms of revenue on a Y-o-Y basis?

Abhishek Mandawewala: Okay, so we have not shared the numbers in terms of what is the number of times that we are selling of these products, I can share in general with you that there is a significant growth, and the numbers that we were doing last year, in these products versus what we are doing today. It's a difference of night and day, definitely and with the business development in the pipeline, I'm hopeful that the business will continue to grow.

Ankit: Sure. And what has been the reason for such a significant jump in this product, as of and above?

Abhishek Mandawewala: I don't think it is just a one quarter or three quarters or something, every day, every month we are making progress in this area. Sometimes, you put a lot of effort but the results don't come immediately, it takes time and then suddenly they come together. So right now the demand was pretty good. Sales have significantly shot up, and also by good fortune, we were able to land some new business from some strategic customers who have placed these orders. There were some products which are under development for a long time, they were doing some testing and they finally decided to launch the response of these products in the retail shelves was good. So the volumes went up with many factors, I don't think suddenly in one day, it has increased, the effort is the same that we have been putting for the last three, four years it's just that the results is showing now.

Ankit: Sure. And given some of this in the past you have talked about how in many of those products, we have some sort of arrangement with the customers that, it will be a long term supply to them. So how sure are you about the sustainability of the kind of growth that we have seen in this product over the next few quarters, and over the medium-term?

Abhishek Mandawewala: So, as I have said generally, I am very wary of making futuristic statements. So honestly, I don't know how sustainable this new demand is and whether the demand is going to remain at this level, we are able to see a consistent increase in this strategic business and share all of our new products that we have launched over the last three or four years, we will see that volumes are slowly and steadily going up. And, I'm hopeful that we have weathered some tough times over the last three or four years and all I can say is that, I'm hopeful that we'll be able to grow this business and we won't have any shocks like GST, Demonetization or COVID or something like that.

Ankit: Sure. And we have been talking about in the past few quarters that we will not be spending much on the CAPEX because currently we do have some scope of improvement in capacity utilization, plus some debottlenecking that we might undertake in the future. So, let's assume the prices of the products and raw material at this level, which we have seen in last quarter. And our capacity utilization increases, so at optimum capacity utilization at all our divisions, what can be the revenue that we can generate. At what point do you think we'll have to go for additional CAPEX going forward?

Abhishek Mandawewala: Again, I don't want to share a number that this is the raw material and the prices of the finished goods fluctuate every day because the polymer is dependent on the oil and the oil keeps going up and down every day. So very hard to give a number. But right now, we have many initiatives on cost, as well as throughput that we are able to increase sales & bottom line and certainly if the demand sustains for some more time and CAPEX that we are going to do is in the business where there is a strategic importance with the customer, and where I feel that the margins are more sustainable for a longer duration of time, the business is in-line with our with our philosophy, we will incur at that time, so if the demand sustains for two, three quarters maybe we'll look at making some investments in strategic areas.

Ankit: Sure. And just last question from my end, in all our statements BCF, Dyed yarn at Palghar, nylon and polyester if you can give us how has been the performance of all the segments, capacity utilization, and overall.

Abhishek Mandawewala: I answered. In terms of the utilizations, I answered. So, in terms of the performance under all three segments I said it also in the opening speech, we set out with a goal three, four years back and I'm absolutely happy with the progress that we are making in each business, Palghar is turned around and providing good bottom line, which earlier was almost dragging. And, in the textile business volumes are going up as a result of these throughput improvements. The costs are coming down as a result of downgrades and rates are going down, strategic products continue to get added. So, overall I'm happy with the way that we are progressing, it's just that some of the work that we have done in the last three, four years is getting recognized now in this quarter, it's not something new that we have suddenly done in the last quarter that has resulted in this.

Moderator: Thank you. The next question is from the line of Riddhesh Gandhi from Discovery Capital. Please go ahead.

Riddhesh Gandhi: A couple of quick questions, on your existing capacity and I know, this has been asked around in a few ways, how much incremental throughput do you think we can actually drive without incurring CAPEX. Estimated 10%, 20% how should we be thinking about the amount of increment?

Abhishek Mandawewala: It's very hard to quantify, so honestly, I have been surprised myself. So every time we hit a number, we come up with new ways to exceed that number. So I'm just going with the flow right now, every time we are hitting one number some genius comes up with some new plan to further increase the sales. I don't want to block the process because as soon as you start incurring some big CAPEX, work hampers & get derail because people get busy in the project work. We still have four- five initiatives in the pipeline and those initiatives are basically in Spinning & Texturizing area. So 5% to 7%, and in BCF, we have a few initiatives in the pipeline. Palghar we are anyways slightly underutilized. So we have anyways opportunity to improve without doing anything major. So we still have a fair amount of scope because the incremental CAPEX comes free of cost. So the incremental revenue comes free of cost because you're not adding apart from the direct raw material, packing material & finish oil, apart from that there is not a single addition of the fixed costs on that incremental revenue & it contributes quite significantly.

Riddhesh Gandhi: So, if I understand, effectively with the gross margins we would be making on incremental revenue would be 40% odd?

Abhishek Mandawewala: Right

Riddhesh Gandhi: So, effectively if we are able to drive another 10% incremental throughput, and we are able to make a 40% gross margin on that, or that should actually flow straight to PBT.

Abhishek Mandawewala: 10% is a lot, by the way, but yes to answer your question directly, that lot let say a big part of that incremental gross margin should straightaway flow to the bottom line because there is no incremental cost.

Riddhesh Gandhi: Yes, and the other question with regards to, except for the inventory, gains in nylon, was there any other sort of exceptional items either on the actual positive or negative side that we should be thinking through, as we think through the current run rate of the business?

Abhishek Mandawewala: Yes, so on the polyester side, it's slightly reverse. So, if you see some of the numbers of the commodity polyester companies, they are quite explosive and that's because the deltas in the polyester industry went up. But now we are a net buyer of the commodity in polyester, rather than a net seller. So, when the commodity margins improve then that squeezes to us because we mainly have a larger share of exports and in exports, they don't care about what is happening in India, they care about the global prices, and this expansion of margin in the polyester commodity happened because of the unavailability of raw material and shipping. So that is a very local India centric problem that PTA was not available, etc. So, in that area, we had a slightly negative impact, which hopefully to a certain extent will offset the nylon. So that's a one-time tailwind.

Riddhesh Gandhi: So any idea, is there any way you could broadly quantify the impact of nylon and how much net positive we should be looking at, as an exporter?

Abhishek Mandawewala: Very difficult to quantify. Prices keep moving up and down. So, it could just be a very crude guess, and I don't think it's a number we are providing but definitely it not extremely large but it's not extremely small.

Riddhesh Gandhi: Got it. And then as we are looking at the Q4 are the trends that overall, we are seeing sort of in-line with where we were seeing in Q3, because we're hearing from a few others, that actually Q4 is in fact even stronger than where Q3 is?

Abhishek Mandawewala: Yes, for us the booking cycle is general one, two months ahead. So, certainly, Q4 is for now the situation sometimes changes at the drop of a hat, but right now Q4 is looking quite strong. And in fact for us in terms of polyester, the raw material prices are also starting to soften which is a good thing, but on the nylon also the prices to a certain extent, stabilize the stock increasing, very difficult to predict the way it was very difficult to predict in August that such kind of demand will come, it's very difficult to say what's going to happen.

Riddhesh Gandhi: So as of now it is looking good, but obviously hard to predict if there are any hits on say macro side of things and so on.

Abhishek Mandawewala: Correct.

Riddhesh Gandhi: And, just a last question still on the balance sheet side, I guess you guys have been able to pay down about 30 crores of debt over the last quarter roughly. And so effectively the way we should broadly be looking at things is that, we've got a new, normalized EBITDA, or a depreciation given you guys depreciate your assets, reasonably aggressively will also be coming down. And you are effectively paying down also about 80% of your EBITDA in terms of debt, we should see a reasonable amount of amid deleveraging and reduction in interest costs as well, which would all accrue to reasonable PBT growth effectively?

Abhishek Mandawewala: Hopefully.

Moderator: Thank you. The next question is from the line of Ayush Mittal from Mittal Analytics Private Limited. Please go ahead.

Ayush Mittal: The most noticeable part of this quarterly result is the turnover and the volume number that we have done. So at +16,000 quantity tonnage that we have done, I wanted to understand how sustainable this could be going forward and given the demand scenario, if you have to produce more what do you plan to do going forward if you have to increase production for the company?

Abhishek Mandawewala: So, the demand is a little difficult to predict whether the level will stay at this or not, I feel the pessimist tells me that this is an abnormal demand and I have not seen such kind of demand in the last six years. So, the pessimist in me says that, maybe it is something that will tone down a bit. In terms of how we are going to grow, as I said for us any incremental CAPEX that we do, we are being a little careful about it and we want to make sure that there is a certain bare minimum hurdle rate, which we are able to cross. And even after that, we don't want to put any significant money into a business that is not strategic. And there is a lot of stuff that we have started to outsource which earlier we have taken for granted, that we have to produce in-house, but of late we have started to outsource some of that. So, to a certain extent, we are able to grow the volume as a result of this outsourcing and taking out the lower margin stock for the lower value-added activities letting other vendors do it and trying to focus on the downstream and the more value-added activities and the more innovative products. So, trying to create the space in-house, by taking out the stuff that we don't want to that we can let's say outsource at a lower than a reasonable rate of return, if we were to put a new CAPEX to make that, the CAPEX decision would not be very justified at the current prices at which we are able to outsource. So that's one way that we are creating the capacity and the other way, as I said is, through the improvement in the throughput which is happening in every area of the business. So, in every area, the team is being challenged and they are able to find new ingenious ways to improve the output of the same machine. So the same thing that was producing X, let's say is producing X+10% or X+20%. And as we are growing, we are finding new ways to do it.

Ayush Mittal: It's heartening to hear about the outsourcing initiatives, because these are very fruitful from the return perspective at the company level. But as a company, you need to have more capacities or capability to outsource much more if the demand continues to do well. And so I'm just trying to get a sense like these outsourcing initiatives, how much would these be, are these just 5%, 10% of your production capacity or you have capability to do much more. Also on the debottlenecking side, is the capability that you can do maybe 18,000, 20,000 production or is it limited to only some more improvement from here?

Abhishek Mandawewala: To answer your second question, we are ourselves discovering more ways to improve the throughput and for example, new throughput improvement initiatives came up in Q3 which might not reflect in Q4 & vice versa, still there are many things that we are working on now. Even 5%, 7% for me is quite a high number because the impact on the bottom line is very high. So, I don't think it's going to be like 20% or 15% or something like that. It is certainly going to be something under 10%. So that's one and what did you ask. So the outsourcing Yes, currently if I look at my sales, I will have to break it down, you can discuss this offline because I will have to break it down by the process, because each product undergoes several processes and process wise we are outsourcing a different kind of quantity, but overall a sizable quantity of material is being outsourced. So, all the products combined, it's more than let's say 1000 tonnes a month. And hopefully, number one we can grow this, because we are trying to outsource the things, which maybe if we do a CAPEX on those things, then it will not justify the CAPEX so 12% or 13%, or 10% ROE or may be lower. So, we don't want to do that CAPEX the payback might be more than 10 years or something like that. So those activities, we are outsourcing, and we have many other products like that which we are making, which we can continue to outsource. But then, simultaneously we also need to find the products which we can replace them with because if you run the machine empty it is not going to help you. If I'm very honest with you, we are also learning, it's not something that we have figured out, just like with the new products, right now okay we have got so many products, which they are starting to sell, when we started off this journey, there were 5 times the number of products that were launched, and maybe four of them didn't see the light of the day, only one of them saw the light of the day. So, the same thing in this, this is a new journey that we have begun in the last year. And we will learn as time goes by, we will learn new things.

Ayush Mittal: Great. So, Abhishek given that we have done so many things, we have done so many new products, we have optimized your product mix over the years, and now we are at a good positioning, aspirationally don't you think given the size of the company that we are at there should be an endeavor to have at least double digit volume growth going forward and be prepared for that and take steps to ensure that for the next few years, because that is what will give the improvement in higher turnover is what will drive the overall big numbers for the company?

Abhishek Mandawewala: That is decided by two or three things, number one is, whatever we grow should be something that maybe we cannot do outside in a cheap manner. Let's say that's number one. Number two, whatever it is that we grow should be something that it is not easy for our competitors to snatch away from us by reducing the price by Rs.5 or Rs.7. And number three, because these CAPEX that we do is a very long lead time, it's not something that today I spend the money and tomorrow we have the machine. So, today if I spend the money, I have to forecast after one year what's going to happen, so I don't want to get over-aggressive just because one quarter, the demand is good, I don't want to get over-aggressive and commit all the CAPEX in one shot and after one year something again, like demonetization. So, there are several factors, and then there is an internal rate of return, I don't want to do any project below a certain rate, below a certain amount of years of payback, we don't want to do any project. So, it's a function of many things. And as the new products are getting added, that decision is becoming easier and easier. But just because of one quarter I feel that we have to be a little patient and we need to make sure that our base is formed, the EBITDA is sustainable and that will only happen as we deliver these results for two, three quarters. We get this result and then we will definitely look. And even right now we are doing small CAPEX it's not like our CAPEX is completely zero, we are buying machines where, let's say payback is in 1.5 years or 2 years or 1 year. So, this kind of CAPEX is not a CAPEX it's like you're spending money and you're immediately getting it back. So, those kinds of projects we are doing.

Ayush Mittal: Okay. In last few months it was good to see some social media activity on platform like Instagram and all by the company, wherein lots of new products, differentiating value addition and all those things were showcased. Can you share any, if we have been able to add more new customers or some products which have done very well which have been something differentiated new for us in last six months?

Abhishek Mandawewala: Yes. Again, please don't hold me to this next coming quarters, right now it's a very small business, our business of Ecose and Silkenza, that's for us the most surprising new product that we have developed, we are the only people to make it. And it's very, very difficult to replicate this by anybody in India or abroad. And for this product, I'm so encouraged though we are hardly doing 20 to 30 tonnes a month. As we are not getting calls from our customers; rather we are getting calls from our customer's customer that we have heard of this product. And now, we have this customer who is asking us to supply yarn to his supplier and they want to start working on this product with us. So, right now it's still early stages and we are struggling with the quality and still tiding issues, I have been speaking about it for the last two, three quarters, but very surprised I was with the Ecose and Silkenza and I hope that we are able to convert this into an opportunity and it doesn't grow in volume significantly. So this was definite one area. And we have a couple of strategic customers, we have added in this quarter. One, new program, one significant new program in Wonderfeel we have added in the month of January, and I'm hopeful that it will remain, it will be a good volume generator in the times to come. And this NPD activity also, we have done some good new product developments, which products which we have not launched and I'm hoping to launch them in the coming few months and the pre-launch that we've done with few customers, the response is good. And hopefully, they will also generate some volumes. But again see, these are all long lead time that's why I don't like to share, they take a long time to rectify and very, very uncertain throughout the process.

Ayush Mittal: Also, the volumes are very small as of now so they don't make an overall impact.

Abhishek Mandawewala: Yes. So, most of these projects you don't realize they start 20 tonnes, 30 tonnes and then suddenly something will happen and it will go to 100 tonnes, one new program will come, it's very difficult to predict.

Ayush Mittal: Okay. My last question is that, in parts we have seen that there are ups and downs cycle in the textile industry. And we do have to bear the inventory hit or something volatility of the RM. Have we been able to do something to insulate us better going forward. There is a policy or management?

Abhishek Mandawewala: Could you explain that please, I could not understand?

Ayush Mittal: Earlier in our commentary we have talked about the volatility in RM which has affected our margins, or when the RM prices go down we do get a hit. Have we been able to do something to manage this better?

Abhishek Mandawewala: You mean hedging, is that what you mean?

Ayush Mittal: Yes. Or maybe better inventory management or something to?

Abhishek Mandawewala: No,but see that is very speculative. So you can never say whether something will go up or down. And, if you try to speculate, then sometimes you can get caught on the wrong place. And plus, you don't want to unnecessarily block working capital, and speculate far, so we have a very simple process, we have a monthly planning system. And in that planning, whatever requirement comes, we only ordered that much. We don't try to speculate that the price will increase so let us order more or price will increase so let us order less. All, that we try not to do, so whatever last week of the previous month, our planning department they give us an entire list that these are the things that we need to buy in this quantity. So we don't try to over guess that now let this price might go up or down. There's no benefit of doing that, in my opinion.

Moderator: Thank you. Next question is from the line of Rohit Balakrishna from Vrddhi Capital. Please go ahead.

Rohit Balakrishna: So a couple of questions. So some of the questions have been answered already, but just a couple of questions. One was, so you actually talked about cost cutting and a lot of productivity improvement, but if I look at your other expenses, line item and sort of look at it as a percentage of sales it is pretty much in-line with what it has been around 30% odd. So, in terms of the cost cutting increases, the cost cutting measures and throughput increases, is there any in terms of that line item, do you think that is, there is a lot of scope to decrease or because we have this kind of volume increase, then this is the kind of other expenses line item?

Abhishek Mandawewala: It's more to do with, because of the volume increase the other items in the other expenses have gone up, but a lot of areas I can give you some examples. So, dyes, chemicals, we have saved a lot of money, we have renegotiated with our existing suppliers and taken significant discounts, which we were not getting earlier, our water treatment cost was very high we have brought it down by 50%, and we are further planning to bring it down to another 50%, I'm talking Palghar right now, I can come to Rakholi also. The water consumption we have brought down, let's say we were using x amount of liters per kg to dye now that x is let's say x minus 10% or x minus 20%. Packing we have done a lot of things, the same thing in Rakholi we have brought down costs significantly there. We have, for example, the paper tubes we were using only once, now we are started to recycle. So, almost every paper tube is, there is an 85% recycling rate, we have optimized some energy consumption over there. Several downgrades and ways they were down significantly in the last quarter, it's been on a reducing trend as compared to before so, these are small, small cost. So for example, a downgrade and waste, this cost will reflect in the raw material, it will not come in the other expenses. So, small, small areas which are definitely added. I don't know in which area it is going to reflect, but the cost is definitely down as compared to before.

Himanshu Dhaddha: So Rohit, just to add to what Abhishek has said. So other the expenses actually includes a lot of variable expenses like, your contract labor's or your power and fuel, which are semi-variable, your packing materials, dyes, and chemicals, which are linked to the revenue. And also it has the element of selling expenses, like commissions and freights, for example due to logistic issues the freight was on the higher side in this quarter. So, plus-minus all these things are actually clubbed in the other expenses, if you will see the full year report of last March, you will see a lot of expenses details in that. But that's how it is, so there are certain pluses in certain elements of expenses, and there are certain minuses. And with the change in product mix and the increase in export shares and all, so these expenses like commission or freight and all these, actually, they change it. So they are not comparable on a quarter-on-quarter.

Rohit Balakrishna: Okay. That's very helpful. On the volume side, so again as you also mentioned in your opening remarks that this is the highest volume that we've done. So, also alluded to the earlier question, so how do we look at volumes and increase volume from here on in terms of because you mentioned that you're doing some sort of outsourcing as well. But will that be the driving force for increasing volume shifting from outsourcing, shifting from our own production to outsourcing or are there other levels in terms of small incremental targets or are you thinking of some more bigger topics in your strategic products?

Abhishek Mandawewala: See if the demand sustains in this way, then certainly CAPEX will be on the cards, but the demand has to sustain in this way. So nobody has an answer to that question. And if they feel they have an answer to the question, they are forecasting something that is not possible to forecast today. So we have to see how the demand moves. Outsourcing was a product of, let's say we were having x amount of capacity. And suddenly because of this situation, the demand went to x plus 20. Actually, we were outsourcing even before COVID, let's say the demand increased more than what we were able to give. So we started outsourcing and then while we were outsourcing we started to look for ways to increase our own production, but I don't think that it's not like we are saying that we are going to stop growing. We will definitely wherever possible will do a CAPEX where it is adding a strategic importance to our business, where it is meeting a certain benchmark or criteria in terms of the number of years of payback of that CAPEX, where it is something that if it can be outsourced, it should be outsourced at a rate at which if I do the CAPEX, then the rate of return will not justify that CAPEX. In that case, definitely and there are many ideas that we have right now, but don't want to overly commit something in a hurry just because one quarter there is demand and invest. So, we will see if the demand situation maintains, and then we will take a call.

Rohit Balakrishna: And in terms of sorry, the net debt number can you repeat that and given that you had a better sort of quarter and you expect this next couple of quarters at least, at least next quarter you mentioned, so is there any accelerated plan to repay the debt what we had earlier in mind?

Himanshu Dhaddha: So, net debt stands at 207 crores as on 31st December, and we have a quarterly repayment schedule of around 11 to 12 crores. So, that's the amount actually we have been repaying and the other part is that the working capital usage, So, last quarter the working capital usage has come down because of the overall requirement as well, but going forward if the demand sustains, the procurements would increase and so the Working capital requirement

Rohit Balakrishna: Right, but in general given what we see today. Any thoughts on when do see this number reducing let say significantly, in the previous call you mentioned that in the next four years, you want this number to substantially reduce. So, just wanted to sort of get a sense on that?

Himanshu Dhaddha: Yes, so as we said that we want this net debt to be at a reasonable levels and we are more focusing on net debt to EBITDA rather than the absolute net debt. So, overall that should be more or less at a reasonable level and gradually as we actually improve in terms of operations and all, we are not incurring more of CAPEX, the excess cash would go in reducing the net debt.

Abhishek Mandawewala: So, the debt has to be at a level at which the company is able to absorb shocks like COVID where tomorrow if something terrible happens, then we are able to absorb that shock. And secondly, it depends on the opportunities that are available, we have some CAPEX opportunities, maybe one year back the situation was that we were yet to further improve the profitability and there were a lot of levers announced maybe after six months the situation might be that we have exhausted all options of improving costs and improving throughput or let's say you can never exhaust but let's say all the low hanging fruits are already taken away. And at that point, at the same time, we have some opportunities which are available which meet all our criteria, then clarity will become again to make sure that we are doing a little bit of capital expenditure and maybe the absolute level of debt will not come down, but as Himanshu said the net debt to EBITDA will come down. First priority will always be that there has to be enough cushion that, tomorrow if there is a bad situation like COVID the company should be able to absorb the shocks. So, certainly till then we want to make sure that we are always reducing.

Moderator: Thank you. The next question is from the line of Sujeet Agarwal an Individual Investor. Please go ahead.

Sujeet Agarwal: So, I just had a couple of questions regarding the strategic verticals of AYM particularly, so as you've been regularly outlining the strategic verticals are IDY, BCF, solution dyed nylon. So, I just wanted to understand the nature of competitive intensity in these particular verticals, how exactly has it shared in the last three years?

Abhishek Mandawewala: Okay. So first of all IDY and BCF, these are not verticals, they are individual products. And if you take BCF, nothing, at the end of the day, there are 100s of companies in the world making BCF, whether they are making all of the products that we are making, whether they are giving the same kind of comfort that we might be giving to our customers, or whether their customers have the same level of comfort as our customers. It's not always, just because there are 100 companies, that doesn't mean all 100 companies are eligible to supply to a particular customer. But, if I compare from before right now, honestly, it's not that something that I've experienced firsthand, but you never know, there is always somebody doing something somewhere that you will never be able to imagine. So, you can never get too complacent and you have to keep innovating. So, right now I'm not aware, but I can also tell you with a disclaimer that tomorrow someone will come up and crash the prices you never know. In terms of the other products again see, very difficult to say right now, many products that we do we are the only people but then there are also products, other products in the same area where other people are involved sometimes, we do some sport business to make sure that the capacity utilization is maintained. So, in that, the competition is with far more number of players. So, very dynamic thing and depends a lot on the individual product in question. Hard to answer, regardless how hard the alternative intensity is.

Sujeet Agarwal: Particularly if I, like ask a question very directed question as such like, you mentioned that there are 100s of BCF suppliers. But if we look at India, the number of Indian BCF suppliers is very lesser as compared to the number of Chinese BCF suppliers. So, I just wanted to get a rough sense, in particularly BCF are there any competitors that have emerged in, there are domestic Indian BCF suppliers as such, and is my sense right that mostly AYM is focused on polyester BCF and nylon BCF as compared to polypropylene BCF, so the nature of demand is actually export oriented rather than domestic oriented?

Abhishek Mandawewala: So, I'm not commenting on our company strategy, on a concall that everybody will be able to have access to, but I can say that, BCF is just, one part of the entire pie, it is not all and it is not everything. It is nowhere, it's not everything, number one. Number two, different products in BCF has different level of competition. Number three, just because there is no player in India or there are limited players, I should not say no players but there are limited players in India, that doesn't mean that, it's an open ground or something like that, there are a lot of players globally, if you look at, if you go to a carpet exhibition you'll see dozens of companies from Turkey and China. And they are supplying to the same customers that we are supplying to, so it's not like, just because there are no players in India that means the competition is less and vice versa. So we have to try always & have to always be on our toes, we can never take the customer for granted, we need to make sure that they remain satisfied, we have to make sure that the quality is consistent, for which we need to make sure that the process is consistent. We need to make sure that the deliveries are given on time, we need to make sure that we are able to service them and we are able to answer their queries on time, at the end of the day the purchaser in the customer department should be able to go home and sleep in peace, knowing that he is working with us. So that is one side of the story and the other side of the story is, you try to give him products that other people are not giving. So automatically you'll have a certain amount of edge. But, it's very hard to say individually that this is good or this is bad, it really depends on what you're doing with that individual customer.

Sujeet Agarwal: Okay, got it. So, just to get a rough sense of the order book like in particularly strategic products or strategic verticals as such. How is the order book visibility, if I could get a rough sense, do you have a order book visibility of let's say around, three odd months as such in particularly strategic verticals or strategic products?

Abhishek Mandawewala: No, generally most customers have a monthly buying PO system. So every month, they place their orders what they want, in the coming time depending on their shipment lead times and depending on their own consumption pattern and all that, so definitely we don't have a three-month order book, most customers only place orders one month before they require it. So generally doesn't go above one month.

Moderator: Thank you. Next question is from the line of Dhwanil Desai. Please go ahead.

Dhwanil Desai: Two, questions. First one is, when we look at the most players in our industry, one thing continues to rise is that there is a good cycle, and we will start making descent return on capital and then large CAPEX happens again and return on capital goes down and something else happens. So, can we with all these efforts will reach a respectable level, fingers crossed if everything goes well, how we escape from that kind of rising thing in the industry. Any moves on that is the one. And second is for Himanshu the tax rate, we're still paying full tax as per the old regime, so what takes normal tax rate that you should assume for the next year?

Abhishek Mandawewala: Himanshu maybe you can take the tax question and then I can come back to the.

Himanshu Dhaddha: Yes, so Dhwanil I was not able to hear you probably, you were asking the tax rate for next year right?

Dhwanil Desai: We are paying 45% tax rate as of in this quarter, and the last one, so will we move to the new regime of your 22. Something or with all and?

Himanshu Dhaddha: No, we will be under, we will continue to be under MAT in next year.

Dhwanil Desai: Okay.

Abhishek Mandawewala: Right. So, to answer the question on CAPEX, it's an excellent question. I am battling this on a day-to-day basis. And, it's a big part of my job that I'm doing on a day-to-day basis. So the way, I am personally looking at it is, as I've said, at many points in the call that try to, if there is something that can be done, without spending money, by somebody who's able to do it at a rate of return at which, or let's say if they are able to do it at a price where if you were to do the capital expenditure, let's say the rate of return would be significantly lower, then we have to eliminate that CAPEX. So, far we were, to a certain extent maybe not doing that or not thinking in that way. And the second thing is, if you want to target x number, then the internal hurdle rate always has to be slightly higher than the next number, then you'll be able to reach that x number. So, I can tell you that our internal hurdle rate in the last six, eight months have gone up considerably, especially after this outsourcing strategy that we have created. So our own internal hurdle rate has improved. And then the third area is, you keep innovating and you keep pushing out the stuff that can easily be done outside and you keep trying to do more of the stuff that either you cannot outsource or you can't outsource say cheaply let's say and automatically over a period of time the ratios will start to improve. It's a slow and steady journey and we need to that's why I want to, I don't want to overcommit on the CAPEX without looking at those numbers. So unless let's say there is a certain incremental payback period that the CAPEX is going to give me I don't want to, let's say divine, we don't want to invest in those projects. So, that is the way that you are looking at it. And we are finding several ways honestly we are trying to find many ways in order to reduce the capital intensity of the business. So, we are doing all this work, but at the same time outsourcing is just one area. So we are also looking at how do we, modify the machines to produce something that, let's say you can produce a higher value of the product from that same machine, rather than producing a low-value product. So, the same machine can give you a better asset or a better margin. Maybe in some cases, there are some opportunities available for pre-used machines, where you're able to get big deals in those machines, and the condition of the machine is very good, maybe it is used for four, five years, and the impact on the health of the machine is very low as compared to the discount that you're getting from the original price or find new ways to get more out of the same machine more throughput, try to sell as much yarn as we can on the immediate payment or try to reduce the payment term. So, it's a very good question and all I can say is that, it is not something that it's not in our minds, or it's something that we are not working, every day that I go to office, this is something that I think about and trying to come up with new ways in which we can create a world-class business with a significantly lower capital intensity, as compared to what it was five years back, or what it is today going forward. So, I'm hopeful that we'll be able to progress in that direction, over a period of time, but it is not something that happens in one day. So, in one day, you don't go from let's say I don't know, x to 2x, it's a slow and steady journey and you will keep learning, with every step, every day you will learn some new idea will come, we will try to execute. So, every day there are new ideas that come which we try to do, but long story short is, we are all working on this and I am personally very much focused on this exact point that you mentioned.

Dhwanil Desai: Very good to know Abhishek, just one follow up that these internal rates that you talk about do you think it will be north of 15%, right that's a respectable number?

Abhishek Mandawewala: Yes, so we look at it in terms of the project's payback. So, generally, we prefer, now in theory, I can want anything that I want. And sometimes the reality is lower, when we do our internal calculations, more than three to four years any payback period we generally don't like to comment. Right now, the small CAPEX that we are doing, hardly we're doing a very small amount of CAPEX, but right now it's literally 1, 1.5 years. So we are right now the hurdle rate after COVID was almost 1, 1.5 years. So, but now long term if you aim for a 3 to 4 years period as payback which over a long period of time these business ROEs can significantly improve and it's something that will be a healthy return ratio.

Moderator: Thank you. The next question is from the line of Riddhesh Gandhi from Discovery Capital. Please go ahead.

Riddhesh Gandhi: Abhishek, the last question was, in the budget we saw two statements, one was effectively that the duties on the RM was going to be reduced for nylon plus some amount of reduction in nylon ace, yarn is also about 2.5% and lastly they were going to be redoing the inverted structure of GST. So, if you could just share your thoughts on how all of this impacts us and how we should be thinking about it?

Abhishek Mandawewala: So, the GST is a very important point, but let's not get ahead of ourselves. Nothing has been announced on the inverted duty structure. Last three, four years, there has been quite a lot of discussion about eliminating the inverted duty structures, but I'm sure that as the leaders of our country, they have bottlenecks that are preventing them from going ahead with it. So, I am sure they are sitting at the 30,000 feet level, there must be things that are preventing them from doing it and we must be patient. They know what is good for the textile industry and what is not good. So hopefully, it will happen but we have to be patient but so far it has not happened. But, if it happens it's a very, very meaningful thing for our company and we have a lot of accumulated input tax credit and all of that input tax credit can get converted to cash if that happens. But, again let me say that last two, three years, every year in the budget, there has been a discussion, but unfortunately, at least in some industries it has even happened in mobile phone and all that it has happened but unfortunately for whatever reason, it has not happened in our industry so far. So, I am not yet getting my hopes up, we will take it when it comes. In terms of the duty, the basic customs duty BCD it's our net negative impact, we are a net seller of yarn in the local market, the net buyer of chips, the exports of nylon yarn are lower than the local sale of nylon yarn. So the local prices are determined by the import prices. So whatever the import price is, the local price is calculated after adding the duty and the freight and the clearing, folding, etc. So, the local price of yarn will come down to that extent of 2.5%, the local price of chips will also come down by 2.5% but that value addition between the chips price and the finish good price of nylon you have lost the 2.5% duty advantage that you had, you can understand what I'm trying to communicate. So to that extent, we have a negative 2.5% impact on the nylon profitability, not 2.5% of the sales but 2.5% of the value addition which is the difference between the selling price and the raw material price that's going to be the net impact, net negative impact.

Riddhesh Gandhi: ok, if you look at it this is only on nylon and it's only on the value addition impact 2.5% because anyways our RM cost also reducing effectively.

Abhishek Mandawewala: Correct.

Riddhesh Gandhi: Got it. And, so then the GST thing, I get if it comes this will be a GST council issue effectively is that typically how to resolve?

Himanshu Dhaddha: Yes.

Moderator: Thank you. Ladies and gentlemen, this was the last question for today. I would now like to hand the conference over to the management for closing comments.

Himanshu Dhaddha: Thank you everyone for attending the call, stay safe, stay healthy. Thank you very much.

Abhishek Mandawewala: Thank you everybody for your kind wishes and blessings. We have worked very hard, but at the same time, we must recognize that there are a lot of tailwinds that are adding our numbers. So we must balance our expectations and against all the good work that is happening in our company to look at what the company can do in the future. But, thank you all for your patience all these years, during the tough times of the company, and I hope that we can live up to the expectations and do better for the company. Thank you, everybody.

Moderator: Thank you. On behalf of AYM Syntex Limited, we conclude this conference. Thank you for joining us and you may now disconnect your lines.

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