AYM Syntex Limited
Q1 FY19 Results and other Business Update Conference Call
August 17th, 2018

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

Moderator: Ladies and gentlemen, good day and welcome to AYM Syntex Limited Conference call to discuss the Q1 FY19 Result discussions and other business updates.

On behalf of AYM Syntex Limited, we have with us the key senior management including Mr. Abhishek Mandawewala – MD & CEO and Mr. Himanshu Dhaddha – CFO.

As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I would now like to hand the conference over to the management for their opening comments. Thank you and over to you.

Himanshu Dhaddha: Thank you. Good evening everybody, this is Himanshu. I welcome you all to the conference call on our company's behalf. Let us begin this conference call with a short update on the quarter 1 results which is already in the public domain and also uploaded on our website.

So AYM Syntex posted revenue from operations of around Rs. 231 crores for the quarter ended June 30, 2018. A growth of around 13% over last year same quarter which is mainly aided by increase in volumes and rise in exports.

Also last year same quarter was impacted due to the strikes and uncertainties over impending GST. Sales is on a slightly higher side as compared to previous quarter in value terms however in the volume terms we are lower by around 1,000 tons versus March quarter.

In terms of tonnage we did about 12,080 tons which is about 7% increase over Q1 FY18. However, it de-grew by 7% as compared to previous quarter which is Q4 FY18 mainly on account of domestic volume reductions. EBITDA for the quarter was at around Rs. 16.4 crores, 7% of Revenue from operations as compared to Rs. 15 crores in Q1 FY18 and Rs. 19.0 crores in Q4 FY18. EBITDA is lower Quarter-on-Quarter on account of lower productions and sales as well as rise in the raw material cost and other input cost like dies and power and fuel cost.

EBITDA per ton was on the lower side this quarter at Rs. 13,538 per ton as compared to Rs. 14,900 in the previous quarter however it was higher as compared to the last year same quarter which was at around Rs. 13,200. Absenteeism of the workers and employees is faced normally during this part of the year which impacts utilization as well as efficiencies at the plant level resulting in lower production and also increase in employee cost on account of overtime being granted to the employees and workers and some contract labours hiring to manage the production although with the lower productivity.

Profit after Tax for the quarter ended 30 June is at Rs. 32 lakhs as compared to Rs. 69 lakhs in the previous year same quarter on account of higher depreciations and interest expenses due to increase in CAPEX. Net debt figure stands at Rs. 236 crores as on June 2018. This has increased by almost Rs. 15 crores in the current quarter on account of withdrawals of loans largely for the project six to fund the continued CAPEX.

Net debt to EBITDA ratio is at around 4.48% and current ratio is at around 1.1%. Total debtors in the books has slightly increased as compared to March level from Rs. 87 crores to Rs. 91 crores on account of increase in exports. Although our debtors above 180 days is almost Rs. 1 crore only.

As far as update on CAPEX is concerned on project wise we have till now spent almost Rs. 53 crores as on 30 June and around Rs. 48 crores out of Rs. 119 crores in project six. In the current quarter we have spent almost Rs. 31 crores of the total on account of CAPEX.

With this information note I am handing over to my colleague Mr. Abhishek who would provide some more business updates.

Abhishek Mandawewala: Good afternoon everybody. Welcome to AYM's conference call. The quarter gone by was yet another one fought with challenges. On business wise updates I will start with textiles which is a combination of polyester and nylon. In textile the margin pressure continued while the business continues to suffer there has been some good news after a long time on the demand side. Government has decided to allow input tax credit on fabrics which should increase liquidity in the market.

Further, duty has been increased on certain end products which should hopefully curb imports to a certain extent. When I say curb imports I mean for the end products. The real impact will only be seen in the times to come. However, on the other side the depreciating rupee has lead to increase in RM cost and it is becoming difficult to pass this on in the textile space.

With this announcement however we hope that the sentiment in the market will improve while volumes with new strategic customers have increased we have also faced internal issues of higher downgrades and wastages and leftovers due to the quality requirement being higher of these customers.

This is part of the journey but however this is creating lower yields and impacting our profitability. Many of these issues are coming in products that we are producing commercially for the first time and however we are on a steep learning curve and as time passes by hopefully we will be able to get our yields up. Cost reduction has also been a major focus area for us and we are looking to develop newer sources of RM as well as bring down utility costs which have gone up in the last few quarters.

For the Palghar business, the update is as follows. This quarter we lost lot of productivity not only on account of the holiday season and manpower shortages but also because of some raw material shortages that we had. This was mainly because one of our major suppliers had financial problems and had to abruptly suspend supply for more than a month. This created a major disruption and also there was an inordinate amount of power drippings in the month of June and also in July.

We are still in the process of developing new supplies and while partial supplies have started from new supplies we expect normalcy to be restored only in September. Business development here is encouraging and some of our new customers have now started to contribute between 5% and 10% of the overall business. I am talking about the new customers which have been added in Palghar and we are expecting this number to slowly go up.

The update on the BCF. We are preparing for the upcoming expansion which should hopefully start paying fruit from Q4 FY 19 or Q1 of FY 20, although, it will start may be in Q3 but before we stabilize and start running the lines the full impact should be seen may be in part of Q4 FY 19 or early Q1 of FY 20. Our product Sorenyl as well as Comfeel seems to have generated good interest in the market and particularly after the consolidation that has happened in the global BCF supply and sales in these products has started to increase. In fact, we have received the first bulk order for BCF in Comfeel which is a proprietary product for us.

Our order position has also increased which is a great thing now that our new capacity is coming up. And on this side the Rupee-Dollar increase will help us to partially offset the cost increase. The good thing is that we are now nearing the end of our CAPEX cycle and by end of Q3 we should be done after which we would like to consolidate our operations, focus on cost and getting the utilization numbers up and also of course improving the quality of the balance sheet.

So with that, I would like to handover the call for questions.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session.

The first question is from the line of Rajeev Kumar, as an individual investor. Please go ahead.

Rajeev Kumar: What do you expect the EBIDTA margins to be on normalized raw material cost and normalized expenses in long term?

Abhishek Mandawewala: Unfortunately, we do not give guidance for EBIDTA, so I would not like to provide any kind of guidance for the future EBIDTA margins.

Rajeev Kumar: Actually I was looking into the results out of the last 12 years only 3 years we have seen EBIDTA margins over 10% and for minority shareholder's it does not help like if the share price drops to 75%, say from Rs. 150 to Rs. 40 now which is why I was asking whether we should consider this as a commodity company or a specialized yarn company?

Abhishek Mandawewala: Certainly in terms of our product mix if you notice that our group's margins are much higher than some of our competitors. Needless to say we are a specialty yarn manufacturing company operating in a very niche segment or several niche segments. Of course we have a commodity side to our business also. Time and again I have been mentioning in many of our calls that the nylon business which is a significant part of our overall turnover is certainly a commodity segment but at the same time you can say that the business is a mix of both.

Rajeev Kumar: How much percentage is the commodity business?

Abhishek Mandawewala: We do not provide the details of the individual segments.

Rajeev Kumar: My question is because if the specialized business is say just 10% and we are asking 90% of the questions on specialized business then it does not help because 90% of the business is commodity which is why it is mandatory to provide these details at least, how much percentage is what?

Abhishek Mandawewala: I am sorry we are not in a position to provide these answers. Let us move to the next question please.

Rajeev Kumar: My next question is depreciation like you were saying that Q3 we will see entire CAPEX done so what is the level of depreciation, how many crores per year or per quarter we should expect?

Himanshu Dhaddha: Currently it is at a level of Rs. 8.5 crores with two more quarters of CAPEX which is pending and then capitalization thereafter. I presume that it will be at the level of say Rs. 9.5 crores or so.

Rajeev Kumar: Rs. 9.5 crores depreciation per quarter?

Himanshu Dhaddha: Yes.

Rajeev Kumar: Next question is on the warrant conversion? Do we have another trench to be converted? Is that right of around Rs. 30 crores to Rs. 35 crores?

Himanshu Dhaddha: Yeah, so share warrants have been issued and those are yet to be converted.

Rajeev Kumar: You are planning to convert those or?

Abhishek Mandawewala: Yes, very much as of now there is no reason why we will not want to convert those.

Rajeev Kumar: Okay, one more question about another shareholder in the company called MGN Agro. So I read somewhere that is it in anyway related to promoter or promoter entity?

Abhishek Mandawewala: So MGN Agro falls under public shareholding, MGN Agro, the previous owners of the company that is part of the shareholding of the previous owners.

Rajeev Kumar: I could not get, previous shareholders of the company means?

Abhishek Mandawewala: The Welspun Group.

Rajeev Kumar: They are part of Welspun Group you are saying?

Abhishek Mandawewala: Correct.

Rajeev Kumar: My final question is when can we expect, how soon or how late should we expect the margins to improve?

Abhishek Mandawewala: As I said we do not provide guidance for the numbers in the future quarters but we have certain levers with which we can help to increase the profitability of the company. And some of these will be mentioned in my upcoming annual report. I can elaborate very succinctly, there are 3 or 4 major levers that we are counting on. Number one is the increase in the volumes of the business in Palghar in textiles as well as the upcoming BCF expansion.

Number two is the cost reduction initiatives that we have started taking and hopefully will occur over the next few months and also the third is the upgradation of the product mix where we hopefully will move from commodity products to more specialized products. So these are the three levers with which we hope to improve our profitability.

Rajeev Kumar: So in this journey where are we right now? Not having started or somewhere in the middle, where are we right now?

Abhishek Mandawewala: So we started this journey about two years back and I would say we are somewhere in the middle.

Rajeev Kumar: We are somewhere in the middle but margins are yet to improve?

Abhishek Mandawewala: Correct.

Rajeev Kumar: And what is your outlook on raw material prices and how much percentage of the sales does that constitute?

Abhishek Mandawewala: So 60% of the sales are raw material prices. I do not have any outlook for raw material prices, certainly in the near term we can see some supply shortages of PTA as a result of which we are expecting polyester raw material prices to go up. Nylon however has been stable for the last month or month-and-a-half but very difficult to say what is going to happen in the future. Certainly Caprolactam which is an input for Nylon is right now not available very freely.

Rajeev Kumar: Any message for minority shareholders because most of the shareholding is with individual investors not any funds or anyone is holding right now as I have seen?

Abhishek Mandawewala: Nothing additional to what I have been communicating in various con calls as well as our annual report.

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

Riddhesh Gandhi: On the textile front, is a larger amount of the overall EBIDTA margin compression driven because of the textile business?

Abhishek Mandawewala: Your question is that are the lower margins being driven by the textile segment as opposed to BCF and Palghar? Is that correct?

Riddhesh Gandhi: Yes, correct.

Abhishek Mandawewala: So to a certain extent I will agree. Our textile segment which is the Polyester and Nylon segment has actually led to majority of the compression in margins that you see over the last two years. More or less the Palghar margins and BCF margins have remained intact or in certain months even gone up but it is the textile segment that has, if you look at the last two years' performance it is the textile segment which has significantly dropped in margins.

Riddhesh Gandhi: And look you had a large increase in oil prices and also if you have the PTA plants which actually are coming up and the plants which are closing down, is it that up to an extent lead to an increase in the prices of RM and is there any reason why we are not able to actually pass it on to the customers?

Abhishek Mandawewala: Again let me repeat the question, so you are saying that the PTA plants have shut down which has led to the raw material increases and we are not able to pass that on, that is what you are asking right?

Riddhesh Gandhi: Yeah, I just want to understand the reason we are unable to pass it on is it that the demand and supply mismatch?

Abhishek Mandawewala: So I will divide this, so I am referring to now the textile segment. In Palghar as well as BCF we have slightly better pricing power and to a certain extent we have been to pass on. Of course on average we might have been able to passed on but we have certain customers where we cannot pass on and certain customers where we could pass on. In textiles, so if you look at let us say the last from in the case of Nylon if you look from end of 2016 where raw material price was $1,600 and today the raw material price is around $2,475.

And in Polyester if you look at last year the raw material price at the base was around Rs. 55 and it has now increased to around Rs. 85 approximately. So for Nylon, as I said several times actually the entire cost increase we have not been able to pass on number one and number two, also because there is a change in demand supply situation in the last two years the overall margin over raw material that we were enjoying in the Nylon segment, let us say the year of 2015 and 2016 that has shrunk dramatically.

So there are two elements. Number one is that the overall profitability that we enjoyed in 2015-16 in Nylon because of the demand supply mismatch is no longer, that favorable environment is no longer there. Not only have the margin of raw material because of the demand supply gap reduced even at constant raw material prices but the increase of raw material prices has further shrunken the margins.

On the Polyester side again in some cases we have been able to pass on, in some cases we have not been able to pass on. But I would say the majority of the compression has actually come from the Nylon.

Riddhesh Gandhi: Going ahead without getting into any specific numbers directionally does this appear to be the bottom in terms of the margins or are you going to continue to see pressure going ahead as well?

Abhishek Mandawewala: Again bit of a forward looking question there, very difficult to say, at the same time I can say that businesses have been through a lot in the last two years and you have seen certain increases that have happened in a very short period of time. For example, even power was a major impact for us. Question is whether we can make up for all this with the increase in volumes and also with the reduction in cost and the product mix on which we have been working for so long. So I think it is going to be several factors which are going to play against one another and we hope over a period of time that the margins start improving again.

Riddhesh Gandhi: Got it. And the last question was that there is some news about reduction in the XT power cost for XT spinners in the state of Maharashtra, is that something that you guys are picking up on as well and that should materially help us?

Abhishek Mandawewala: Yeah, so that discussion has been on for almost, since the month of February. If that comes then it is a big bonus for us, but I will look at it as a bonus and maybe if it comes through then we can talk about it but until then we do not factor it into any of our calculations.

Riddhesh Gandhi: But in the event that it does come through, actually XT Power is a reasonable percentage of our expenses?

Abhishek Mandawewala: Yes, it is a very big part. I mean for us it will be a significant cost reduction but again we not want to consider itcurrently..

Riddhesh Gandhi: It will be until it is actually being announced and until it is in the bags?

Management: Correct.

Moderator: Thank you. The next question is from the line of Rohit BalaKrishnan from VRDDHI Capital. Please go ahead.

Rohit BalaKrishnan: In this quarter any update on our strategic customers or anything on that front?

Abhishek Mandawewala: So, note that we, there is no significant addition of commercial business in new customers which are already announced in some of my previous quarters but certainly with the existing customers particularly in Palghar the volumes have ramped up. In BCF also as I said the SORENYL and COMFEEL products, COMFEEL is proprietary and SORENYL is the solution dyed Nylon product which we developed sometime back and the volumes over there also have significantly ramped up. On the textile side, the strategic customers that we added they continue as per normal.

Rohit BalaKrishnan: Got it. The second question, you mentioned as part of your overall margin improvement, the levers that you talked. So the first one was overall volume growth in all your products, so within the textile this volume growth you are seeing as a larger part of growth in the market or is it something that you are developing new products or you are creating your own products and as a result you will get this volume? So just wanted to understand the part on the textiles?

Abhishek Mandawewala: Yeah, so I will explain all three, starting with textiles. So in textiles when I say volume growth actually we are, the efficiency and utilizations at which we are running the plants, there is a lot of scope to actually improve upon those numbers and that extra additional tonnage gives us disproportionate profitability because the entire contribution comes to the bottom line. So in textiles we are not adding any new lines but through the process of better utilization of existing lines and better efficiencies we are hoping that over a period of time we can add some volumes.

And in Palghar it is the debottlenecking process. We have various routes in which we do the dying, there are 4 or 5 different routes in which the input raw material is being fed into the dying process. We must find the right balance, sometimes three routes might have excess orders and two routes might have low orders. So that causes bottleneck in the plant and the dying department is not fully fed with the material.

So in Palghar again if we are able to balance out the routes, there are plenty of scope for actually increasing the volumes. And again with Palghar we can get additional profitability if we are able to increase the volumes. So again that is a better utilization and efficiency and balancing that we can do in Palghar and in BCF of course the extra capacity which is coming.

Rohit BalaKrishnan: Got it. So basically you are saying in textile business there are benefits in terms of improving your yields in utilization and in Palghar it is more again more inward looking, more internal in the sense that you again have to do some tweaks in terms of the way you handle your raw material, is that right?

Abhishek Mandawewala: Handle the order booking across various routes.

Rohit BalaKrishnan: Okay, got it.

Abhishek Mandawewala: The raw material of course that was another challenge but that was in this quarter, one of our suppliers had an issue, so that was specific to this quarter it is not a general issue.

Rohit BalaKrishnan: Understood. And I think 5 or 6 quarters back we had an issue in Turkey because there was some political issue there and recently also Turkey is going through its own issues. So does it impact our BCF business now in any way positively or negatively because the currency there has depreciated a lot? Does it make us less competitive now? Can you just explain if there is any impact?

Abhishek Mandawewala: Certainly some of the local Turkish players are going to be more competitive than before. The impact will be seen in the quarters coming forward. Right now we have not heard from any of our customers on this account but you never know. So we will have to be very watchful of this and see how to proceed. But it is not like we have some unlimited barrier to entry but still it is not a one-minute exercise like maybe in the domestic Nylon that maybe for Rs. 3 or Rs. 4 the sources get changed.

In terms of BCF it is a slightly more strategic relationship with the customers. We are working very intimately with these customers and particularly with the new products that we are offering and the share of the new products SORENYL as well as COMFEEL is increasing, and these are products that for us at least the customer gave us a chance particularly in solution dyed Nylon they gave us a chance after 4 or 5 years.

Now, I do not know, maybe a new supplier might be able to give that confidence to the customer that he will able to supply these products without a previous track record. But in our case it took us good 4 to 5 years to gain the customers' confidence supplying other regular products of Polyester and PP before they gave us an opportunity here. But, let us see how the situation goes in, maybe in the next 3 to 6 months.

Rohit BalaKrishnan: So I understand that, but basically my question was that some of these players in Turkey would already be supplying to some of the customer, right? So they becoming cheaper, does it impact you in any way? That was the broader question.

Abhishek Mandawewala: Right. At the end of the day it is the same market where the Turkish player is also selling and where we are also selling. So certainly, to a certain extent there, competitiveness has increased. Now to what extent it has increased and whether that is material enough that is yet to seen over the next 3 to 6 months.

Rohit BalaKrishnan: Got it. In your update you mentioned that there was some consolidation that has happened in the BCF market. Can you just point out what was that? And one more question as an extension to this, is it possible to sort of get a sense about in volumes or in percentage term what would be our market share in BCF or is it even worth looking at given our size right now there?

Abhishek Mandawewala: I think the BCF market is may be several hundreds of thousands of tons if not millions, but so our market share will be very tiny, in the overall scheme of things. The consolidation is basically one of the leading players of BCF called AquaFil, they purchased a plant in China of a company called INVISTA and these are the two. So they did not purchase INVISTA, but they purchased a plant of INVISTA, but they were one of the leading suppliers of solution dyed Nylon and that has opened up some doors for us.

Rohit BalaKrishnan: INVISTA was the supplier?

Abhishek Mandawewala: Both AquaFil as well as INVISTA.

Rohit BalaKrishnan: Just two more questions. You mentioned something about your order book in BCF, so would it be fair to sort of say that with this order book your utilizations in BCF including the new capacity that would be at almost peak utilizations?

Abhishek Mandawewala: No, so the existing capacity is being utilized fully but the new capacity I think will not be fully utilized immediately. But over a period of time it will get utilized but as soon as we start the line it is not like we have to go hunting for new business. To a certain extent the new business has been lined up but also the new expansion that we are coming up, let us say it is 100 units of capacity from that 50 units of capacity is a totally new let us say line and a new product which we are not making, which we never made before.

So that will have to start from actually zero from, that development we will have to start. We cannot develop that product with our existing line. So when that line comes then we will start the development and then that long process will happen, which has happened for all other products. But rest of the 50% capacity I think we should be able to utilize that in a quarter or two.

Rohit BalaKrishnan: Okay, so basically you are saying, let us say if the total capacity is 100 units, 50 units you have visibility, 50 units would be new product which is why the capacity was built in the first place, so that you will have sort of have to build over a period of time, right?

Abhishek Mandawewala: Correct.

Rohit BalaKrishnan: Can you just tell me what is the debt right now? Sorry I missed that number, net debt. What is the debt cost at this moment?

Himanshu Dhaddha: So net debt is at around Rs. 283.8 crores.

Rohit BalaKrishnan: What was this at the year end? Around Rs. 290 crores, right?

Himanshu Dhaddha: No, it was Rs. 252.1 crores, I am talking about net debt.

Rohit BalaKrishnan: Gross was around Rs. 290 crores, right?

Abhishek Mandawewala: No, what you are referring to is including the acceptances, so this is what we are talking about is the term debt. The long term debt is the borrowings.

Rohit BalaKrishnan: Yeah, so if you include the short term and net working capital sorry not net working capital but working capital then?

Himanshu Dhaddha: So overall term debt as well as working capital debt, so for example cash credit and all that is more than Rs. 20 crores in March which has gone up to Rs. 236 crores. What you are referring to number is Rs. 290 crores was actually Rs. 220 crores minus Rs. 290 crores, Rs. 70 crores was the acceptances which normally in an external **(Inaudible 34:06)** reporting you do not treat it as a debt.

Rohit BalaKrishnan: Okay, this is more like LCs or?

Abhishek Mandawewala: LC, yes.

Rohit BalaKrishnan: What is the cost of debt?

Himanshu Dhaddha: Overall weighted average would be around 9.5%

Rohit BalaKrishnan: And Abhishek, just one more question. So actually two questions. First is in terms of cost structure you were saying that you are looking at reducing your cost. So do you think that the other expenses of the employee cost about Rs. 15 crores or Rs. 16 crores or Rs. 17 crores and other expenses of about Rs. 60 crores that we see in the quarterly, this is sort of like the peak numbers to sort of work with, is that a fair assessment?

Abhishek Mandawewala: I will put it the other way. Most of the recruitment that had to happen in the company particularly at the senior level they have been now complete. We are not expecting any addition of any new positions. We created a lot of business development verticals, the entire management team at the Palghar plant was revamped, the senior management team at Rakholi was revamped, so all those recruitments have now happened. So from here on it is going to be basically the increments that happen that will get reflected. But no new additions will happen, major additions.

Rohit BalaKrishnan: And other expenses, in terms of reduction in cost, how will that play out?

Abhishek Mandawewala: We have several things in that other expenses, we have the power cost and the utilities and several other cost, manufacturing expenses, overheads, rents. So that to the extent of, I do not have a guidance for it but we are trying our best that on a unit level how we can bring these numbers down, on a unit level, so per kg levels.

Rohit BalaKrishnan: If you look at our historical numbers over the last several quarters you fit a gross margin of as low as 30% and even 28% or 29% in the years of FY13 and I think some quarters of FY14 as well. So is it fair to say that with whatever little improvement in the product mix that we have seen, those kind of margins would be, we have averted even because the situation has been as bad as or perhaps even worse than that. Is that a fair assessment to say that a change in the product mix or a change in with addition of BCF etcetera those kind of margins have not been seen?

Abhishek Mandawewala: Okay, so if I look at 2013 versus today, I think the business is fairly different. Number one, even on the polyester side at that time in 2013, big part of even the polyester segment was quite commoditized. The Nylon segment was not there at all. And in place of Nylon we were actually making commodity Polyester which was even worse than commodity Nylon, for the size of our company.

So that is one. The other thing was that the BCF was not present. Number three is that the Palghar was a lot smaller than what it is today. So overall I do not think the 2013 situation can be compared with 2018, I mean we would have to do a really terrible job to be 10% lower gross margin than where we are today.

Moderator: Thank you. We have the next question from the line of Nimish Talsania, as an individual investor. Please go ahead.

Nimish Talsania: I have broadly two or three questions. Just one is Himanshu, you mentioned that there is a debt of Rs. 236 crores which is gone up now from the last year. So are we looking at reducing the debt over a period of say next one year, or are we looking at a situation where the company becomes debt free maybe in the next 2 or 3 years?

One is that question. So if you could just help understand as to what is the management takes meaning Abhishek, as well as you as well as other senior management of the company on the debt figure?

Because that typically is always a concern for even extremely good companies and the debt burden almost takes away the sheen of the company and the profits are hit big time. So is there a strategy in place to say that okay right now we are in a phase of growth and we are in a stage of investment and we want to really shore up our expansion for the business, so we borrow money from the market?

Abhishek Mandawewala: Allow me to interrupt. I will answer your question. So as I said in my commentary, we are very nearly at the end of the CAPEX cycle. So by Q3 hopefully of this year, by December more or less almost all of our committed CAPEX should be over and we have not lined up any new expansion plans for the company. So to that extent whatever additional profitability or cash profit the company will generate will go towards improving the quality of the balance sheet and as I said we have anyways enough levers in place to improve the sales, the profitability and the tonnage.

It is of course up to us and our execution ability to put those levers in place but we should be able to achieve we can move on even from here without doing any expansions. So from next year onwards or let us say December onwards hopefully the figure should start coming down.

Nimish Talsania: Okay, great. Is there any particular strategic direction that is already in place which says that over the next 2 years we will try and bring that debt down from Rs. 235 crores to maybe just a Rs. 50 crores or probably nullify it and we become a debt free company?

Abhishek Mandawewala: So we do not have a particular strategy like that in place, but certainly we do not have any plans in the immediate term for any expansion after this round is over and that should automatically help to bring down the debt. So, the lifecycle of expansion is also fairly long in our industry so today if I start work on a project by the time I finish the work it will be good 4 or 5 months and by the time I place the orders maybe another 2 to 3 months then there is a good year's lead time.

So best case scenario here is at least the minimum time frame if I decide something today it will take at least a year for that machine to come, so right now we have nothing in place or plans for that.

Nimish Talsania: But definitely there is a plan to reduce the cost of the borrowing because that definitely will help up shore up the profit which is what I feel is needed now at this juncture?

Abhishek Mandawewala: Just to add this will happen by reducing the overall debt as well as the cost of debt if our EBIDTAs and all will improve the situation. And overall from the health point of view of the company strategically what we feel is that net debt to EBIDTA ratio should be between 2% to 2.5%.

Nimish Talsania: Which currently is at 4%.

Abhishek Mandawewala: Correct. So that is where we target over a longer period of time or say a medium period of time.

Nimish Talsania: Right, the second question is regarding the reserves. Now we have close to around Rs. 230 crores, Rs. 240 crores of reserves right? If I am not mistaken, Himanshu?

Himanshu Dhaddha: Yes.

Nimish Talsania: Yeah, so any particular plan regarding the reserves that how we are going to deploy them in terms of expansion or in terms of maybe investments into may be newer product lines and things like that?

Himanshu Dhaddha: Basically reserve is more or less combination of the retained earnings and the capital reserves and securities which we have. The cash flow which is already available with us is already been getting deployed in the investments and the new expansions.

Nimish Talsania: Right, but when you say Rs. 200 crores plus kind of reserves, so you would be having that money available to the company, right?

Himanshu Dhaddha: This is not cash money.

Nimish Talsania: So what kind of reserve is that?

Himanshu Dhaddha: Sorry?

Abhishek Mandawewala: Let us move to the next question, please. You can look up reserves and then we can have a conversation about it offline.

Nimish Talsania: Okay, so the other question is, Abhishek you mentioned that hopefully by Q4 of this year or Q1 of next year you should be able to see the new product lines or the new expansion that you are putting in place start generating some kind of business for the company. So my question is what do you anticipate in terms of these new so called capacity expansion or the new product lines that you are launching when it starts actually generating revenue for the company from Q4 of this year or maybe Q1 of next financial year, how do you see that impacting the overall revenues of the company?

Abhishek Mandawewala: I am not sure what you mean, it will certainly go up.

Nimish Talsania: Yeah, it will go up. So when I say impacting means how do you see that overall contributing rather my question should be sorry not impacting but how do you see that overall contributing to the growth of the company? So I mean today we are at Rs. 800 crores or Rs. 900 crores kind of turnover so by putting in this engine in place and if they run at full steam?

Abhishek Mandawewala: So I would not like to give any guidance for the future. I think it will play out over the next 3 to 4 quarters and then we can talk about those numbers as they play out.

Nimish Talsania: Okay and coming to the BCF business again you are not giving a split for that, right are you or like BCF?

Abhishek Mandawewala: No.

Nimish Talsania: Fine. So that is fine and I think is it from my end. My main question was on the debt side and it is good to know that company has some plans in place over the next couple of years to kind of bring it down.

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

Yugansh Jaswani: Just wanted to understand say in our business what we have been trying to do is we have been trying to add some value added products and alongside we have the commodity side of the business. So on the commodity side of the business wherein we are seeing a continuous drop in margin. So what are the efforts that we are taking to get back those things in line I mean our cost structures are going up we have done some hiring. So what are your thoughts on that like running the commodity business like a commodity business and then alongside trying out new things? So what are your thought process around it and how are you balancing this act?

Abhishek Mandawewala: So the way to look at it is it is very simple that no further capital will be deployed in those parts of the business and all further capital will go in to areas which are more from a margin perspective also better and from a sustainability perspective better. So over a period of time hopefully the commodity segment will become a smaller and smaller part of the whole. So in simple words that is what we are looking at.

Yugansh Jaswani: So if I understand correctly like going down say three, four quarters down the line you are saying commodity business will be scaled down and similarly along the same line value added products or the things that are you are trying out should pick up and hence balance out the situation?

Abhishek Mandawewala: I am not sure if it will happen within three to four quarters but over a period of time certainly the commodity segment will keep going down. Number one, by product mix replacement and number two also by new capacity which gets added which will be needless to say it will be in strategic areas only.

Yugansh Jaswani: So just a related thing to that as you said over time so how the management decides that now it is time that we have given this new concept or this idea it is fair chunk of time to play out in the market and it is not delivering as we were expecting. So how are you planning to take those such failed attempts out of the process and what exactly is going on on those fronts? What threshold that you might have internally that if you could share with us like if it does not meet this and these standard criteria it has to go out and then we move on to the next? So any thought process on that?

Abhishek Mandawewala: So generally when we are developing a new product we look at a mix of everything. Number one, the sustainability of the earning ability from that product the sustainability of that. Number two, what customer we are doing it and the sustainability would largely be a function of that and then of course the profitability. And sometimes it so happens that we develop a product and the profitability that we are expecting from it just does not come.

The price at which we are thinking to sell is not profitable enough to justify that product or in some cases if there is a product which we have been making and certainly if you are making it for the first time and we find that the yields of the product are low and there is no way to get the yields of the product high, in that case we might decide to discontinue that product. But generally these decisions are thought about before starting the new product but it is not like we have not made any mistake, we made several mistakes but that gets corrected Quarter-on-Quarter.

Yugansh Jaswani: So just going by the timeline that we have business has gone through so far. So sometimes with the thing that scares us as an investor is that if we see the profitability Quarter-on-Quarter it has been going down and the things that we thought will pick up and picking up at the pace we have thought. So any change of plans or any different way of doing things may be running the commodity side of the business taking it as a commodity business and then once that is stabilized again may be refocus?

Abhishek Mandawewala: So allow me to cut it short there. Pardon me for interruption. So what we are the journey that we have taken on since the last two, two-and-a-half years there is absolutely no change in that. Of course the minor shifts in direction are always there but in general the direction which we have been taking remains absolutely the same and intact. The facets of those journeys are as follows. Number one, we are a specialty manufacturing company and we are looking to add volumes of specialty products.

The operating leverage of the business is higher as compared to some of our other competitor businesses. As a result of that as and when new products and more strategic and more profitable products gets added to the portfolio of the company, the profit of the company should hopefully disproportionately improve. So that is the strategy and that is the plan and we plan to stick on that plan.

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

Shikhar Mundhra: I joined the line a bit late so I just wanted to understand like what is your current capacity utilization for the company as a whole?

Abhishek Mandawewala: At a company level the overall OEE this is a function of both utilization as well as the efficiency is around 71%.

Shikhar Mundhra: And I see that your fixed asset turnover is something around less than 3%, 2.7%. So can we see this going up as we move forward?

Abhishek Mandawewala: Certainly as the efficiencies I mentioned in my earlier commentary as the efficiencies go up and hopefully as the utilizations also go up automatically the asset terms will hopefully improve.

Shikhar Mundhra: And I think we were doing lots of CAPEX for the last quarter which were non-accretive to the revenue. So how long will that continue like?

Abhishek Mandawewala: I think the upcoming CAPEX that we have invested at least in the last four, five months, six months that will come on stream now may be in as I said end of this year, beginning part of next year. That is a revenue accretive CAPEX, revenue as well as bottom line accretive CAPEX.

Shikhar Mundhra: And what is the reason for the margins going down? Is it the raw material price increase basically which you are not able to pass on?

Abhishek Mandawewala: So I explained this in one of the questions that another investor had asked. Over a period of time the nylon portions the margin over raw material has actually shrunk, it has compressed. And the other part of the story is also that the entire pass through of the raw material prices has not taken place. So it is not just the raw material prices but it is also the demand supply gap which has taken place which has largely shrunk. We went from a situation of higher demand and lower supply to a situation of higher supply and lower demand. And in our commodity product what that resulted is compression of prices. So it is a function of both these things.

Shikhar Mundhra: So you see that cycle turning in the near future in demand supply situation?

Abhishek Mandawewala: I mean very difficult to comment about the future. It is not really so I do not see particularly in the nylon segment I do not see any major turn in the cycle because if you remember the antidumping duty has been removed from the nylon product. So as soon as the capacity in India starts to get limited then we can expect that there will be some imports from China and Taiwan and all these kind of countries at lower prices. So not immediately, no.

Moderator: Thank you. We have the follow up question from the line of Nimesh Talsania, as an individual investor. Please go ahead.

Nimesh Talsania: I just have question in terms of total topline what is the split between our exports and imports?

Himanshu Dhaddha: So for this quarter our exports stand at around 36% of the total revenue.

Nimesh Talsania: And for last year ending March 18?

Himanshu Dhaddha: 32%.

Nimesh Talsania: So exports are slowly scaling up, right?

Himanshu Dhaddha: Correct.

Nimesh Talsania: But still we have a good 65% of the market still in the domestic segment?

Himanshu Dhaddha: Yeah.

Nimesh Talsania: And how do you see this panning out over the next one or two years? Will the exports kind of be contributing more to the overall topline?

Himanshu Dhaddha: Yeah, it will gradually increase.

Nimesh Talsania: And Abhishek, question to you in terms of exports. Are we looking at any new countries so to say as a target market for our products?

Abhishek Mandawewala: Yeah, we are supplying in several countries and over a period of time certainly countries will get added but we do not look at it from that point of view we are more customer specific players.

Moderator: Thank you. Ladies and gentlemen, as there are no further questions from the participants, I now hand the conference over to the management for their closing comments. Thank you and over to you.

Abhishek Mandawewala: So thank you everybody for participating on the AYM conference call. See you next time. Thank you.

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