AYM Syntex Limited
Q4 & FY 2017 Earnings Conference Call
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Management:	Mr. Abhishek Mandawewala – Managing Director & CEO Mr. Himanshu Dhaddha – Chief Financial Officer Mr. S.M. Khire – Director Operations

Moderator: Ladies and gentlemen, good day and welcome to AYM Syntex Limited conference call to discuss the Q4 & FY 2017 results and other business updates. On behalf of AYM Syntex Limited, we have with us the key senior management including Mr Abhishek Mandawewala – Managing Director & CEO; Mr. Himanshu Dhaddha – CFO; and Mr. S. M. Khire – Director of Operations.

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 floor over to Mr. Himanshu Dhaddha for opening comments. Thank you and over to you, sir.

Himanshu Dhaddha: Thank you. Good afternoon everybody, I welcome you to the conference call on our company's behalf. Let me begin the conference call with a very short update on the fourth quarter and the full year results of FY17 which is already in the public domain and uploaded on our website too.

So AYM posted revenue from operations of around Rs. 200 crores for the quarter ended 31 March 2017, a growth of about 1% over corresponding quarter last year and on yearly basis it was down by 2% as compared to FY16 on account of impact of demonetization in the current year. EBITDA for the quarter is at around Rs. 20.5 crores which is 10% of Net Revenue as compared to Rs. 31.8 crores, 16% of Net Revenue in Q4 last year.

On a full year basis we touched around Rs. 100 crores of EBITDA as compared to Rs. 108.5 crores in FY16. The EBITDA per ton was on the higher side this quarter as compared to the last quarter. It was at around Rs. 19,000 per ton as compared to Rs. 18,000 in the previous quarter. On a full year basis the EBITDA per kilo was equivalent to FY16 at around Rs. 22,000.

Profit after tax for the quarter ended 31st March is at Rs. 8.3 crores which is 4% of Net Revenue as compared to Rs. 12.6 crores which is 6% of Net Revenue in the previous year same quarter, on account of high depreciation as well as interest expenses due to increase in CAPEX. For FY17 it stood at around Rs. 40 crores as compared to Rs. 47.8 crores in FY16.

Net debt figure stands including all the long-term liabilities, buyers suppliers credit, vendors bill discounting and short-term borrowings net of all the cash and short term investments which we have it stands at around Rs. 241 crores as on March 2017. This has actually increased by Rs. 30 - 32 crores in the current quarter on account of lower EBITDA and already committed CAPEX which we had.

Net debt to EBITDA ratio stands at 2.41 which we hope to bring it down over the next few quarters. Total debtors in the book stands at Rs. 46.5 crores as compared to Rs. 52 crores in last year. Out of it our debtors above 180 days is hardly Rs. 1 crore.

Current ratio is maintained at the same level as last year at 1.26.

On the CAPEX side the update is that on the project V out of Rs. 75 crores we have already spent around Rs. 30 crores still Q4 FY17.

With this information note, I am handing over the forum to my colleague Mr. Abhishek who will provide some more business updates on Q4 and FY17. Thank you.

Abhishek Mandawewala: Thank you, Himanshu. Good evening everybody. First of all I would like to start by apologizing for the postponement of the conference call. This was on account of a personal illness. So I am back on my feet now and here in front of you. So apologies.

Anyway, coming to business updates, I will basically breakup the business into four parts; Nylon, BCF, Palghar and polyester and try and give you a brief overview on each of them.

So I will start with the nylon business. So as you know last quarter nylon raw material prices had touched to around $1,600 to $2,600 in a span of almost barely 90 days and the raw material prices continue to remain extremely volatile and since the last time we spoke till today the prices have already dropped down to $1,750 to $1,800. So as we speak let us say from the lows of September or from the lows of August; from August to May we have gone from $1,600 to $2,600 back to around $1,750, $1800. So it has been a really highly volatile market in the nylon space.

So in terms of the prices of raw materials, we feel that the bottom is quite close. In terms of the margins in the nylon business, we continue to remain muted which of course it was slightly impacted during the sharp rise of raw material prices we were not able to pass on those increase of raw material cost and as they have come down the prices have come down and the margins continue to remain low.

Our business has decided to reduce some exposure in the commodity nylon space and we have converted some lines back in to polyester in order to tackle this low margin situation. Other players however continue to add capacity. There have been one or two new entrants in the space of nylon. Of course, these decisions would have been taken more than 12 months back and the capacities are coming up today and still one large new player is still expected to come out in the market with a significant capacity I think what we hear is between 800 to 1,000 tons per month so it is fairly significant.

This in my opinion will further put some pressure on the margins in the commodity nylon space which are anyway pretty close to zero or minus. There have been a few positive developments in the nylon space, some new developments, some couple of very prestigious customers have been added right now the volumes are very very low but these customers have been added for some products which are pretty differentiated and with that particular customer will be the single source of supplier for this product. So in the nylon space let us say this is the first sign of, small sign of success of some positive product development and it is an important stepping stone in our journey towards specialization.

I will come to the Palghar business now which has picked up in terms of volumes as compared to the previous quarter. But the margins have remained muted even in this quarter and it is not that there is some drastic increase which is expected. The major reason for the downtrend of the margin in this quarter is basically the power cost which has permanently moved up. So Maharashtra power costs have drastically increased and we were purchasing some power from open access which against which some additional charges have been levied which has basically made it almost unviable.

So costs have increased very dramatically in terms of power but our company is working towards mitigating this excessive cost. So we are working on some proposals which can help to bring down this power cost. The plant continues to operate at two-third utilization. Our capacity is 1,800 tons but we are operating at about 1,200 tons level and the sales team is working hard in order to bring these volumes up but I think this will be a long journey to go from 1,200 tons to 1,800 tons probably it is a two-year journey before we reach 100% capacity utilization.

Lot of sampling is taking place again in Palghar with fairly prestigious customers we have received some sample orders which are again very low volume but very, very important for the business and again once the bulk business starts which we are hoping it will very soon I mean again these are very prestigious customers which again for the Palghar business it will be an important milestone.

In terms of BCF the strength of the business has increased dramatically over the last couple of quarters. Quality issues are largely behind us. All our hard work of three to four years is now starting to finally come in to picture. So many prestigious customers have started to work with us now and lot many other customers with whom we were struggling to even get meetings has started doing sampling with us.

So this is a very very important milestone for the BCF business and I believe that we have now reached a stage where all the hard work that needed to be done in the BCF stage we have done that and now it is the time to try and encash the opportunity. Lot of barriers to entry were there for us and it was even difficult to get meetings with some of these customers for two years and finally customers have by word of mouth or good reputation of AYM has been built in the market and finally customers themselves are coming forward and trying to develop business with us.

Now one extremely important milestone has been touched in this quarter in the BCF area. We have signed an exclusive agreement with Dupont which today is the Fortune 500 company for the joint marketing of their Sorona brand in the carpet segment. So there are a few markets which are open for us for marketing of these products like UK and Europe and some other markets and this is an extremely important milestone for us because this basically signifies testament to our arrival in the top league of BCF players in the carpet industry because Dupont does not partner with just any company. They did their entire due-diligence it was a year long process and amongst all the other partners the options that they had they decided that AYM was the right strategic partner for them to partner with.

So we have started this business. I do not think I know many people will be excited but this is not business that will be realized immediately. I think it will take two to three years before business starts coming in. But efforts have already started and we are approaching several customers together with Dupont's team which is a highly capable team to build this business together. So this will be a high entry barrier and very exclusive business for us whenever it starts developing.

Also there was another milestone in the BCF space. Finally after three years of trying we have been successful in commercializing the solution dyed nylon business. Again we come in exclusive league of players in the BCF space who are offering the solution dyed nylon products and finally after lots of sampling commercial orders have started with a few customers and again this is a very, very important time for us.

So while some of these things are not been seen in the margins or in the profitability because they are still a very, very small part of the entire product mix but nonetheless the important milestones have been let us say we have achieved and now it is a question of time to grow this business over a period of time. So the hard work I feel in the BCF area a lot of that has been done. Of course there is a long way to go, long journey to go, still lot of new products still need to be developed. But lot of the hard work in the last two quarters we have seen that it started to pay off now.

In terms of the polyester good amount of sampling and new product development again taking place with existing and new customers. There has been tremendous improvement in the quality however we are still not at 100%. We still need to bring our systems in line with the top let us say the European or Japanese or American players. I think there are still some distance between let us say the top players in the world and us. So we need to cover that distance but I am confident that over the next couple of quarters we should inch closer.

So this is the brief update about the individual businesses. There have been a couple of other developments. Number one, Mr. Kale who was our CEO has taken retirement from our company and secondly, in terms of the next quarter I would like to give an update that since lot of the material the $2,600 and the $2,400 and the $2,500 chips that we have procured in the previous month they have started to arrive. However, the raw material prices have already fallen and so are the finished good prices. So the company is expecting a fairly significant loss in the upcoming quarter in the given area.

So with that I would like to hand over the floor to any questions that any investors have.

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

We take the first question from the line of Dhaval Shah from Girik Capital. Please go ahead.

Dhaval Shah: My question is on this DuPont agreement which you have signed. Can you quantify what sort of revenue visibility you have in this and which are the markets where we can do the joint marketing with DuPont?

Abhishek Mandawewala: Again, very difficult to quantify at this stage. Right now, just the agreement has been signed, we have started to approach customers. This product has been established in the market so DuPont has some other partners they have one very large carpet player as a partner in the US as well as a very significant carpet player in Australia as a partner. But very difficult to quantify but I can tell you that the way it has taken two, three years in the other products in BCF the same story it is going to be a similar story with this product. Of course here we will have the advantage of being backed by a strong company like DuPont and the trust factor will obviously which in original BCF other BCF products we had to go through three to four years' timeframe in order to win the customers' trust in other products.

Maybe over here it will be slightly faster but it will take one or two years before some sizable business starts coming, and after that maybe we can think about maybe in two to three years' time out of the total BCF business maybe 15% to 20% of our volumes can come from a product like this. But most importantly it will help us to come on the map basically because this association is very powerful because it signifies the fate that a company like DuPont has.In the sense automatically other customers also they start putting us in a slightly higher light as compared to before.

Dhaval Shah: Correct. So if I were to understand in more detail so you mentioned that in markets like UK and Europe in your opening commentary you can do the joint marketing. Now what benefit does DuPont has in associating itself with AYM in the international market. If it was India we can understand because of your domestic presence but in the international market so how does it help because it is the brandness of DuPont and when we are doing a marketing that so from a production side AYM does not participate. So I want to just understand from that point?

Abhishek Mandawewala: No, so it is a raw material basically Sorona is a raw material which we have taken and which we have signed an agreement for. It is a raw material that we will receive from DuPont. We will be manufacturing the BCF yarn on their behalf. So they do not have any BCF yarn manufacturing capability, they are basically raw material suppliers.

Dhaval Shah: Okay perfect. So and the branding of the product will be since you are manufacturing so it will be sold in the AYM's name?

Abhishek Mandawewala: No, we will be the manufacturers but it will be sold as a Sorona branded product. But DuPont is not giving the license to everybody to sell the Sorona brand, so they have very few licenses which they give across the world, and in India we will be the exclusive license holder.

Dhaval Shah: Okay so it basically your manufacturing capability which has made them to give you this product?

Abhishek Mandawewala: Absolutely. So the reputation that we have built in the market they have gone around many of the customers so again it is application based. So it is not exclusive in Europe or UK, it is application based we can supply. So even US for example in certain applications we can supply not others. They have some other partners in the US also, but it is basically they went through the entire market, they spoke to the key carpet manufacturers, they did their own due diligence about AYM's capability, about our strength as a supplier and they then decided that we are the right partners to take this product over there.

Dhaval Shah: When you say application based so it will be only for carpet or I assume Sorona is a polymer right and we will be combining with the other product in making a carpet out of it. So this Sorona polymer application is only in a market or some other product also?

Abhishek Mandawewala: There are applications in other products also and we will be working on those, but there we do not have the India exclusivity. The only place where we have India exclusivity is carpets.

Dhaval Shah: So exclusivity for marketing Sorona is only India and if you are going to other markets like UK or Europe?

Abhishek Mandawewala: We will be competing with other players.

Dhaval Shah: Okay so who has Sorona is being licensed from DuPont?

Abhishek Mandawewala: Sorona is being licensed from DuPont, yes.

Dhaval Shah: Okay a similar company having a Sorona license will also be competing with its own carpet to the customer?

Abhishek Mandawewala: Correct.

Dhaval Shah: And in this nylon thing you mentioned the specialization you have done in the product which has made you a single source supplier so can you quantify what is the specialization you have done in this?

Abhishek Mandawewala: We cannot share right now more details about the product. I would like to clarify that we are the single source only from India. They have other manufacturers around the world, but from India we will be the only manufacturer for this particular product in nylon. There are other manufacturers outside of India which are manufacturing this product, but they are specialized manufacturers.

Dhaval Shah: Okay and this coming back to Sorona any clue how much does it cost like per ton basis or what is the cost of this product?

Abhishek Mandawewala: Right now we cannot share those details we are not giving out those numbers.

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

Rukun Tarachandani: So on Sorona again you mentioned that it is an application based license, so I am assuming it can be used for that raw material can be used for products other than carpets as well. So you will only be involved with carpets, or is it that you can go into other products as well?

Abhishek Mandawewala: We can manufacture other products also, but there are terms and conditions in the license which dictate which market we can supply which application.

Rukun Tarachandani: Okay got it and on the nylon side you mentioned that in the coming quarter you will be receiving those higher priced raw materials. So can you give us a sense of how much raw material do you usually keep I mean how long will this impact of higher raw material last?

Abhishek Mandawewala: April month and maybe part of June the impact will be there after June the effect will be regularized, from June we will start consuming the regular materials.

Rukun Tarachandani: Okay got it and final question on the nylon and Palghar side you spoke about getting into new customers or value added customers, while on the other side there are significant other capacities coming in. So but those capacities that are coming in are largely for commoditized nylon, is that a fair assumption?

Abhishek Mandawewala: Correct absolutely.

Moderator: Thank you. We take the next question from the line of Abhilasha Satale from Crest Capital. Please go ahead.

Abhilasha Satale: Sir, you were saying that major turnaround from like the increase from DuPont will come in the next two years, so we just want to get a view how are we positioned for the near-term growth like from which are the areas which will drive our earnings in the near term?

Abhishek Mandawewala: See I have been maintaining that all four areas are important and work continues in each area. In some areas it is a question of increasing maybe we are ready with a right kind of product and maybe we want to increase the volumes. In certain other areas it is just a question of turning around the product mix, so but all four areas that I have outlined they are all important towards driving the future profitability.

Abhilasha Satale: Okay. Sir can you quantify a little bit like how much growth you are seeing, volume growth per se for FY18?

Abhishek Mandawewala: No, we do not give any such kind of guidance and flavors.

Abhilasha Satale: Now that with nylon prices stabilizing how do you see our margins moving I mean are we seeing the margins improving from the current what we have posted during the quarter?

Abhishek Mandawewala: As I said the margins will remain muted and over a period of let us say next 6 to 12 months probably go down further.

Abhilasha Satale: That is on account of?

Abhishek Mandawewala: Nylon, in the nylon business the margins will continue to remain muted and further it might come down further in under more pressure due to the increase in capacity that I spoke about in my opening remarks.

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

Ayush Mittal: Some questions I have are around the balance sheet. First of all, why do we have so much of cash in balance sheet along with the debt, like we have around Rs. 40 odd crores, if we add up the investments and cash in balance sheet?

Himanshu Dhaddha: So this is basically margin money which we have been keeping that required to be given to the banks for the term loans and all those kinds of stuff. So it is included in cash and cash equivalents so around you can say Rs. 25 crores to Rs. 30 crores is margin money only out of that.

Abhishek Mandawewala: Balance money is basically current investments which we have kept as we discussed even last time for a rainy day.

Ayush Mittal: So you keep around Rs. 25 crores, Rs. 25 crores as sort of liquidity you can say that?

Abhishek Mandawewala: Absolutely.

Ayush Mittal: Those kinds of things can be managed by way of working capital like you might have a longer working capital limit, higher working capital limit and you can draw as and when needed?

Abhishek Mandawewala: Yes, this is something that we decided as a company from a risk management perspective that this is a liquid fund that we want to keep. Of course there is a cost to it, but for now at least for the next couple of quarters I do not see this situation changing. Of course some of the high interest rate loans we are trying to repay and this liquid money we are trying to keep it low interest rate with low interest rate funds. But this is something that we felt actually this happened after August after basically the issue that happened at Welspun after that basically as a learning we decided that it is better to have a liquid at given any point of time.

Ayush Mittal: Actually in the last year balance sheet also it was in FY16 quite high the cash number?

Abhishek Mandawewala: It has increased after August, but anyway this is a call that we have taken as a company that we are going to keep this Rs. 15 crores, Rs. 20 crores liquidity.

Himanshu Dhaddha: This is basically less than a month working capital cycle if you could in a nut shell say.

Ayush Mittal: Okay. You used to provide a volume number for the quarter, can we have that?

Himanshu Dhaddha: Yeah so basically in terms of tonnage if you would see we did about 10,890 tons in Q4 this year which was on a full year basis if you would see we stood at around 45,000 tons as compared to 50,000 tons in FY16.

Ayush Mittal: 45,000 tons versus 50,000 tons?

Himanshu Dhaddha: This is for a full year.

Ayush Mittal: And as we see the quarter run rate on the volume is still pretty low, in the last quarter it had dipped due to demonetization. What is the status on this like in between we had started doing 14,000, 14,500 and we even touched almost 15,000 in September or maybe I think the quarter before that?

Abhishek Mandawewala: So utilizations in the last quarter slightly have been on the lower side so some of our lines were not fully restarted. And in some cases we have had and we have tried to do some modification on some lines on account of that also. You know some lines have gone under shutdown. On the nylon account also some of the lines were shut down because of the lower margins we decided to reduce our inventory and stock and in order to control the stock we had to shut some lines even in the nylon. So overall utilization was low but there is a big focus on utilizations again in the company and hopefully we should start increasing very soon.

Ayush Mittal: In a way does that mean that per ton realizations have moved up by 20%, 25% and as we get on to better utilization we should see some benefits due to that?

Abhishek Mandawewala: With better utilization definitely, we are having some EBITDA losses coming from lack of full utilization of machines, as compared to two quarters back. But again, I do not want to give any forward-looking guidance, I am not certain what will be the ideal or the core level of profitability where we will reach whether we are going to reach back the highs that we had two, three quarters back. But certainly, a part of our profitability is of course being impacted by the reduction in nylon margins, but there is also a significant part of our profitability that is being impacted by utilizations.

Himanshu Dhaddha: And in the near term with the product mix phase which the company is going on, we think that in the short term this utilization might get impacted but yes, we are trying to improve the same in the future.

Ayush Mittal: Okay, there is some capital working progress this is towards the project side which you mentioned in your opening remarks.

Himanshu Dhaddha: Yes.

Ayush Mittal: Can you tell me what all is pending and what is to get completed in near terms?

Himanshu Dhaddha: So overall if you see out of Rs. 75 crores we have spent around Rs. 30 crores, Rs. 32 crores till date that is as on March. So almost you can Rs. 40 crores is still left in the project other than that project 1, 2, 3, 4 has already been completed. There is hardly anything which is left.

Ayush Mittal: In 5 what are the major things that are to get completed, any timeline or something?

Abhishek Mandawewala: So see we have not given the breakup of the project Ayush but over the next year, year and a half it will keep stretching. Maybe before it gets completed probably we will table our project

6 but it will take time. So it is not going to you know even when we had announced the project we had said it is a two to three year project. It will not get completed in one year itself.

Himanshu Dhaddha: Overall if you would see on a CAPEX side we continue to maintain the earlier stand when we recalibrated our CAPEX approach and they will be doing around Rs. 15 crores of CAPEX per quarter.

Ayush Mittal: Okay so for the year Rs. 50 crores, Rs. 60 crores kind of CAPEX would be expected?

Himanshu Dhaddha: Yes.

Ayush Mittal: Okay, as we have been doing huge amount of like test and trials on the new products, sampling in all those things which you mentioned any quantitative parameters that you have developed or something to indicate about the projects ongoing or success on new products, anything on those lines?

Abhishek Mandawewala: See Ayush in polyester business, in nylon business and Palghar business I think it is a very small percentage right now still. So barely I can say that it is below 5% but in BCF I would say that we have made a significant progress in this area. So until maybe two, three quarters back we have about seven manufacturing lines we were running about three to four manufacturing lines on pure commodity, which was I would say a product which does not have any stringent quality requirement or a new entrant or an existing entrant can easily compete. Whereas if you take the last quarter, I think almost out of seven lines, almost five and a half to six lines have been on more let us say specialized and higher barrier to entry kind of products.

Ayush Mittal: Okay. But is it also fair to say that as BCF was an area where there were not many manufacturers doing something what you were doing, and polyester and other areas are much, much more competitive?

Abhishek Mandawewala: Every area is going to be competitive and every manufacturer is going to have their own prices but there are certain requirements for which customers do not want to compromise with respect to quality and they want to go with a reputed company and a company where they can consistently rely on the supplies. And over there generally the competition is slightly lesser than the regular commoditized markets. So we are trying to focus on those kind of business. So for example the solution dyed nylon business we have been targeting for almost three years and finally the commercial business has started.

So this is an area where it is not that we are the only manufacturers of solution dyed nylon. But there are very few manufacturers across the globe, very limited manufacturers and even the limited manufacturers they are not able to sell to everybody. The customers who have a very critical requirement they want to buy BCF yarn from quality manufacturers with a consistent track record. And fortunately for us we have built a good reputation with these clients with the hard work that we have put in over the last three, four years.

Ayush Mittal: That is great and when we talk about these kinds of products and the reputed customers, the pricing how is the pricing? The pricing is similar to the other global two, three players or we have to provide some discount or how do we compete or make in roads?

Abhishek Mandawewala: No, so definitely when we are competing with we will always have to provide some advantage or the other but in many cases, we are finding that our competition is located in maybe Europe or US or you know some other high cost countries. So the prices at which we are able to supply even if we have to give a few of course it has to be a discount but it works out well in terms of our target and in terms of return ratios etcetera, etcetera. Obviously now the next player who comes in after us we will have to supply significantly lower than the prices at which we are supplying.

Ayush Mittal: Okay and one question on the tax rate. There have been some tax reversals in last two quarters and overall the tax rate for the year was about less than 20% I think?

Himanshu Dhaddha: Correct. So in last two quarters because of the lower EBITDA scenario we had some tax reversals. At the start of the year when we did the planning and accordingly we had actually provided the tax component again. Hence from last two quarters you could see some reversals in taxes.

Abhishek Mandawewala: So we were always expecting a drop in the margin but it happened little bit more in a compressed timeframe as compared to what we had expected and the increase in raw material rates in nylon precipitated that issue. So but otherwise I think this is the main reason.

Himanshu Dhaddha: And overall we continue to be in MAT right now hence the tax rate is at around 20% to 22%.

Moderator: Thank you. We take the next question from the line of Arjun Sengar from Reliance Mutual Fund. Please go ahead.

Arjun Sengar: Sir, you had provide the volume number for Q4, can you also tell us the number for the same quarter last year?

Abhishek Mandawewala: It is 22% decline as compared to last year quarter same quarter.

Arjun Sengar: Okay, and you also said that you will be doing Rs. 15 crores CAPEX per quarter so roughly Rs. 60 crores in each of the next two years, is that correct?

Abhishek Mandawewala: No, that is per quarter.

Himanshu Dhaddha: We are saying per quarter Rs. 15 crores, so that is about Rs. 60 crores in one year

Arjun Sengar: For the year and this will be in each of the next two years?

Himanshu Dhaddha: More or less on the current scenario it looks like that it will be maintained. We will re-evaluate further after actually say six months or twelve months down the line.

Abhishek Mandawewala: So it will keep on getting recalibrated as per the profitability.

Arjun Sengar: Okay and what is this CAPEX on?

Abhishek Mandawewala: CAPEX will be on either expansion of existing lines or to add new capability new types of products?

Arjun Sengar: Okay because I understand that there is significantly underutilized capacity right now, right?

Abhishek Mandawewala: There is also underutilized capacity, in area by area there is underutilized capacity. So one more area where the CAPEX is going to take place is also some building so that is something that we have maintained also for some time.

Arjun Sengar: Okay and did I hear this correct that out of seven lines in nylon, three to four lines are in commodity space?

Abhishek Mandawewala: We were talking about BCF.

Arjun Sengar: BCF, okay. What is the state in nylon?

Abhishek Mandawewala: In nylon almost 95%, 99% will be commoditized figures.

Arjun Sengar: Okay. And how much would nylon be out of the total business in terms of?

Abhishek Mandawewala: We do not share those numbers.

Arjun Sengar: Okay so can you give some sense of which is your major segments at least?

Abhishek Mandawewala: We have been talking about this in every con call BCF, polyester, nylon as well as the Palghar Yarn dyeing business these would be our four main segments of business.

Arjun Sengar: Okay fine and when do you think you are going to achieve the margin that you made pre-demonetization, is it visible in the next one, one and a half years?

Abhishek Mandawewala: No, to be honest number one we would not like to give any guidance on margins and but definitely there is a pressure on profitability as I maintained and it is not going to be an easy climb back to that level. So whatever margins we were earning in nylon they have been permanently depressed. So BCF Palghar and polyester they are more or less similar. Of course Palghar to the extent of power we have dropped little bit in margin but nylon whatever decrease in margin has happened it is a permanent kind of decrease.

So of course there are several levers to increase the profitability. One is of course the better utilizations in on the polyester side and the nylon side and the Palghar side. Wherever we are expanding capacity whichever products I mean whenever that happens that will be one lever and I would say that as and when the better or basically prestigious orders or the differentiated products start clicking I mean that would be the third kind of product mix, I mean that would be the third kind of lever. But other than that, the nylon margins you can say are permanently depressed.

Arjun Sengar: Okay and as far as this tie up you made with DuPont for Sorona based raw material, you had said that in the few years you want to make this business 15% to 20%, is that 15% to 20% of your BCF business or your overall business?

Abhishek Mandawewala: BCF that will be 15% to 20% of BCF.

Moderator: Thank you. We take the next question from the line of Rohit Balakrishnan from Rare Enterprises. Please go ahead.

Rohit Balakrishnan: So just wanted to can you give the EBITDA per kg or EBITDA per ton again sorry I missed that number?

Himanshu Dhaddha: So on this quarter it was Rs. 19,000 as compared to Rs. 18,000 in the previous quarter. On a full year basis it was similar at around Rs. 22,000.

Rohit Balakrishnan: Full year it was Rs. 22,000?

Himanshu Dhaddha: Yes, so last year also it was at around Rs. 22,000 and this year also it was at around Rs. 22,000.

Rohit Balakrishnan: Got it. So Abhishek, you explained the four businesses in a fair amount of detail, I just wanted to understand as per you so clearly BCF is where the product mix change or the innovative kind of products there we are obviously I think in terms of the stages that is the most advanced stage, whereas all the others are still there is a lot of catch up to do. Is that understanding correct?

Abhishek Mandawewala: Absolutely you got that right.

Rohit Balakrishnan: So in your sense and given it took three to four years in BCF, would that be the right assessment to say that it will perhaps take the same time or given that you have done it in BCF and that will sort of help us?

Abhishek Mandawewala: We wish that was the scenario but the time that it will take it will take and that three to four years' timeframe I mean that is a standard time you have to take to change your business around. So that is something that you cannot and if it does not take that time then that business would not be something which was worth fighting for anyway because then many people would be doing it already.

Rohit Balakrishnan: Okay, so I mean in terms of so I mean just trying to again just think of our future perspective, so three, four years out if you are successful in sort of turning this whole thing around then would you still be in a commodity product line or you will be completely out of it or that is not the fair way to look at it?

Abhishek Mandawewala: No, I guess you could look at it like that. First of all, even after two, three years, or three, four years I do not think every single penny or every single ton of commodity will be out. I think that will be a very, very difficult thing to achieve. I mean we wish to do that but I would say I mean if we are able to do that we will pretty happy because at least what will change is that the sustainability of the margins, this volatility that you are seeing for example that we saw, we witnessed it live over the last two quarters in the nylon space.

This kind of volatility we will not experience because there will be at least a basic pass through of prices and there will be some at least ability where we will have the ability to let us say work with customers on a raw material plus kind of basis and hopefully once we are successful we will be with customers who will be loyal with us and where there is some level of stickiness. So for five, ten cents the supply or the source will not be changed as a result of which margins will be higher also and most importantly they will be sustainable I mean that is the key endeavor in trying to do all this exercise.

Rohit Balakrishnan: Okay so for example in BCF or in the kind of products that you are signing with DuPont and all these people the margins that you would make on a per ton level that will be higher than what you would do at a company level today. Is that understanding should be right or wrong?

Abhishek Mandawewala: I cannot comment on that, Rohit because we do not share the individual margin profile of individual areas but certainly they will be in line with our long-term targets.

Rohit Balakrishnan: So you can choose not to say let me rephrase the question. So the products that we want to go I mean launch in the future we are trying to partners going forward there the endeavor would be the margins would be better than what we are doing, right otherwise what is the point?

Abhishek Mandawewala: Absolutely I mean but the comparison will not always be with others, the comparison will be within the business also. So we will also look at what we are doing in BCF versus what we want to do further in BCF. And how sustainable is the current margin in BCF in this product versus how sustainable will be the margin in an alternate product let us say for example

Sorona. So some of these things will also be taken into account rather than just look at the entire company level.

See each area will have its own margin profile and each area will have products which are highly profitable and each area will have products which are less profitable. It is just a question of what percentage of the product mix is coming from better profitability products in one area versus the other. So but overall, I can say that all the new developments that we are doing needless to say in terms of the ROCE we are looking at our long-term objective should be achieved whenever we are talking. So in totality when we look that is the endeavor when we are developing all these new products. So it is very difficult to calculate ROCE in one product but I am talking in totality when we look that is the endeavor.

Rohit Balakrishnan: And is there any fungibility between these four products or business lines or there is?

Abhishek Mandawewala: No, the only fungibility is between the nylon and the polyester business the BCF and Palghar is completely different. So **t**here is no fungibility between nylon and BCF for example or polyester and BCF or Palghar and BCF

Rohit Balakrishnan: Okay got it. And just a couple of more questions. So when do you think would you be able to share revenues by segment or profits by segment or is that something that you would want to do or you would not want to do?

Abhishek Mandawewala: I guess once we make progress in all the four segments and once we have something to show for, I guess that is when we can start sharing little bit more.

Rohit Balakrishnan: Okay, and just on the CAPEX part so Rs. 15 crores per quarter you said this should be for next four, five quarters for sure, right?

Abhishek Mandawewala: At least as of now we are envisaging that CAPEX.

Rohit Balakrishnan: And any broad sense what would be I mean how much would be your buildings etc and how much would be on these new products?

Abhishek Mandawewala: Right now, we do not want to share that number, Rohit but there is a good part which is non-productive and there is some part which is productive also. So it is not just completely non-productive.

Moderator: Thank you. We take the next question from the line of Rohit Pothi from Marshmallow Capital. Please go ahead.

Rohit Pothi: It is always quite interesting to listen to the con calls I mean there is a lot of information that you give. So one question I had was on the innovation, I mean I understand the company is doing a lot of innovation to invest in developing newer products. So given the uncertain timeline I was wondering how if you go about incentivizing the whole team and ensuring that the company is moving forward?

Abhishek Mandawewala: I guess more than the financial part everybody is wedded to the vision of creating a differentiated organization and everybody that we have on board is committed towards the larger vision of creating a fabulous company. So I guess that is all I will say about how we are motivating the people to.

S. M. Khire: I am Khire here. And rather than Mr. Abhishek replying let me tell you we do not look at the incentive, we look at where the company is heading, where the company is going to be down the line. So we are more committed towards thecompany growth rather than individual growth and believe me this is my team’s version not my alone version.

Rohit Pothi: Okay. Thank you, sir. I was not talking about just the financial incentive it was just that given the uncertain horizon I mean could be two, three four years so I just wanted to understand how the management looks at that particular aspect, that is it.

The second question I had so I mean I was just thinking we have four different lines of business with let us say in a medium-term outlook do you expect I am not asking for projections but is that the belief that all four could be differentiated in their own in that particular businesses or would it make more sense to allocate more resources there within the company to let us say two businesses instead of four? It looks like BCF is moving forward albeit after three, four years of investment so would it make more sense to allocate more resources to BCF what do you think on that?

Abhishek Mandawewala: No, in terms of I mean I will answer this question in two parts. Number one is management resources and number two is financial resources. So I have been maintaining this right from the start so financial resources or capital expenditure will only go towards areas where we have achieved our objective of specialization and capacity will only increase where there is some level of specialization and there is some level of differentiation and there is some level of barrier to entry. So financial resources will flow towards that. But management resources will have to flow in every direction so we cannot just put all our eggs in one basket like BCF and so I mean it is because of the hard work that we put in BCF over three years we have come here.

So even until maybe two quarters back, significant chunk of the BCF business was still coming from commodity. So every area has its own potential, every area has its own teams of people who are focusing. So each people have their own targets and I do not think that we should we can just look at BCF, we need to look at each business and each business has a very high potential to differentiate and create something special.

Rohit Pothi: Okay understood. The last question I had was I believe the last call you mentioned that Welspun will be going out as a client by this year I guess they contributed around 15%, 20% of the revenues. I just wanted an update on that if you can share that info?

Abhishek Mandawewala: I am not sure about the status of their plans but yes once their lines come in, then some of our polyester business that we are doing with Welspun and some of the BCF business that we are doing with Welspun that will move out.

Rohit Pothi: Okay and you expect that to happen by this financial year?

Abhishek Mandawewala: I guess that is a question for their con call more than us.

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

Rukun Tarachandani: You mentioned that there is some fungibility within the nylon and the polyester segment and you were also shifting some lines from nylon to polyester. So just considering that you do not anticipate that business to have a profitability as it used to have what would prevent you from shifting a major portion of those lines to polyester?

Abhishek Mandawewala: Because it takes a huge amount of effort in order to move from one area suddenly to another area. So only when we start seeing good quality business coming into the polyester side, we will start moving. Of course, there will be some commoditized business that we will have to do in the interim so particularly the negative margin products in nylon we want to immediately move out of those. So there we will maybe we move out into from one commodity to another commodity only difference is that one area is giving us negative margins, the other area might be giving us some breakeven or slightly mild margins I mean low margins. But the long term big shift can only happen once the good quality products and high entry barrier kind of businesses and special and value-added products get developed.

Moderator: Thank you. We take the next question from the line of Dhaval Shah from Girik Capital. Please go ahead.

Dhaval Shah: Yeah, my question has been answered. Thank you.

Moderator: Thank you. We move to the next question we take the question from the line of Rohit Balakrishnan from Rare Enterprises. Please go ahead.

Rohit Balakrishnan: Yeah, I just wanted to know if you can share names of folks who are doing the same thing that you are doing with DuPont, who are the other folks would be if you know?

Abhishek Mandawewala: So there is a company in the US called Mohawk and there is a company in Australia called Godfrey Hertz.

Rohit Balakrishnan: Mohawk and what is the second name sorry?

Abhishek Mandawewala: Godfrey Hertz.

Rohit Balakrishnan: Godfrey Hertz, okay. And the last question was that given you mentioned that there would be some inventory losses you also mentioned that most of the new things you think that it is almost bottomed out. So in that sense do you think the nylon part of the business in some sense that would be those would bottom in the coming quarters?

Abhishek Mandawewala: No, I mentioned this a couple of times, Rohit but see the margins are already muted and further capacity is still coming in. So the decisions that were taken by people other competitors twelve months back they are coming into force right now. And surprisingly some players are even taking new decisions today to add lines not in a major way but at least little by little. So, I mean I do not see any reason I mean logically speaking I do not see any reason why margins will go up. Logically speaking margins can only come down.

Rohit Balakrishnan: Understood and just one question. I think you mentioned three levers to profitability one was better utilization the second was product and there was one more, sorry I missed that?

Abhishek Mandawewala: So, wherever we have been successful in commercializing good quality business, there the expansion of quantity will be another third lever.

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

Abhishek Mandawewala: Thank you everybody for joining our Q4 conference call. Look forward to seeing you again next time.

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.