AYM Syntex Limited

Q4 FY18 Result & Other Business Update Conference Call

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

Moderator: Ladies and gentlemen, good day and welcome to AYM Syntex Limited Conference Call to discuss the Q4 FY18 result and other business updates. On behalf of AYM Syntex Limited We have with us the key senior management. Including Mr. Abhishek Mandawewala – MD and CEO, Mr. Himanshu Dhaddha – CFO, and Mr. S.M. Khire, - Director of Operations.

As a remainder, 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded.

I would now hand the floor over to the management for the opening comments. Thank you and over to you.

Himanshu Dhaddha Good afternoon everybody. I Welcome you to the conference call on our company's behalf. Let me give you a very short update on the Fourth Quarter results, and then we can carry on with the questions and answers. The results are already in the public domain and also uploaded on our website.

As far a financial result for the Q4 are concerned, AYM posted revenue from operations at around 227.7 crores which is a growth of almost 14% as compared to the corresponding quarter last year mainly aided by the increase in volume as well as rise in exports, and also last year same quarter was impacted by the lingering effects of demonetization. Sales were flat as compared to the previous quarter, although the previous quarter includes trading sales as we have highlighted in the last conference call. On a full year basis, AYM Syntex sales is up by 9% as compared to FY17.

In terms of tonnage we did around 12973 tons which is almost 19% increase over Q4 FY17. However, as compared to the previous quarter it was down by 6%, which was mainly because of one-time trading and out sourcing activities in Q3 FY18. FY18 sales in Metric Tons are at around 50,000 tons as compared to 45,270 tons in FY17, which is an increase of around 10%. EBITDA for the quarter is at around 19.4 crores, 9% of net revenue as compared to 20.5 crores in last year same quarter and 18.5 crores in previous quarter. EBITDA has shown a slight improvement on q-o-q basis, despite rise in the input cost on account of better sales mix.

On full year basis, our EBIDTA stood at 69.2 crores in FY18 as compared to 100.4 crores in FY17. EBITDA per ton was also on a higher side this quarter, at around 14,926 rupees per ton, as compared to 13,300 in the previous quarter. Profit after tax for the quarter ended 31st March 2018 is at around 3.7 crores, 2% of NR as compared to 8.3 crores. Which is 4% of NR in previous year same quarter. On a full year basis, we stood at around 7.9 crores as compared to 40.2 crores in FY17.

The net Debt figure stands at around 220 crores as on March 2018. This has reduced by almost 22 crores in current quarter on account of preferential allotment to the promoter to conversions of ICD to equity. During the quarter AYM has issued Equity shares amounting to Rs. 47.6 crores to the promoters on preferential basis and also share warrants amounting to Rs.32.4 crores to be excised within 18 months from the date of allotment. Net debt to EBITDA stands at around 3.2 and current ratio at 1.2.

Total debtors in the book stands at 87 crores which has increased as compared to March 2017 of 61 crores. Mainly on account of higher exports receivables. Out of this debtor above 180 days is hardly anything, it is 0.8 crores only.

As far as the CAPEX update is concerned, on Project-5 we have spent almost 50 crores now as on 31st March 2018 out of total 75 crores sanction and around 37 crores out of 120 crore sanctions in Project-6. In the current quarter, overall CAPEX spending has been around 29 crores. With this information note I am handing over to my colleague Mr. Abhishek who will provide some business updates on Q4. Thank you.

Abhishek Mandawewala Good afternoon everybody. I will now provide the business updates for the current quarter. I will start with nylon and polyester where, overall utilization and efficiencies have gone up last quarter. Spinning side, from 84% in Q3 we jumped to around 91%. Downstream texturizing efficiencies were also up. Dispatches have increased particularly for the month of January. Lots of mile stones where achieved in January in terms of plat metrics such as downgrades, wastages and efficiencies. However, march to June are traditionally difficult months as being a labor-intensive industry, workers are generally absent and traveling to villages, and subsequently performance has again slipped in terms of plant operation parameters in the ongoing quarter. We hope to inch back up from June onwards as the workers start coming back. Margins continue to remain under pressure as everyone knows the business has faced tremendous head wins over the last four to six quarters after the steep rise in Nylon raw material prices it is now polyester's turn and on a basis of approximately Rs.55 to Rs.58, in July 2017 the prices have increased relentlessly to upwards of Rs.85 to Rs.87, an increase of more than 50% in a year.

On raw material where a large component is imports, we are also having a dollar hit which will continue in the next quarter. On cost front almost, everything has gone up. As I mentioned in the last quarter power cost has increased to an extent of almost 1 crore per month from Q2 and almost 80 Lakhs per month from Q3 onwards. Due to various reasons, master batch and dyes' cost have shot through the roof too.

Over the last year we have also seen paper cost and as a result of that packaging cost, tin finish oil cost and transport cost going up. All of this has had a toll on the margins. Worker unavailability in the last 3 months has also affected production at customers end, particularly in the commodity segment, there by slowing the company's ability to fully pass on the cost increases, because of lack luster demand. As you know anti-dumping duty has also been removed in nylon after a gap of 11 years, further with issues well publicized in the media about the financial condition of several players, such as A look and 2 to 3 others who are suppliers of raw material such as ships and commodity POY has also lead to acute shortage.

Finally, with the Nirav Modi scam the cheap source of funds like buyers credit that was being availed by several companies' including AYM has stopped and this has actually raised the finance cost of the company.

If there was ever such a thing as a perfect storm I think the company is currently going through it. But on the other side, there are encouraging signs too. The company continues to add strategic customers, for the first time we executed a bulk order of a major French sports retailer who had earlier approved us this time we have supplied to one of their Italian vendors, which is a prestigious business for us. We have also added a large American customer critical one at that and we have started supplying regularly to 2 of their manufacturing locations in Europe ad are also looking to supply to an alternate manufacturing location in Asia. With the same customer as well. In fact, they have given us a projection right up to December. For Comfeel which is one of the new products we had launched last year, we are finally beginning to see traction in various areas of the business, particularly in POY/tex.

In the textile side we have added a major Turkish customer who is using our product to supply to a Swedish to a large Swedish fast fashion brand. In fact, in most of our strategic areas we seem to have healthy bookings. Quality of the business continues to improve although the margins are not improving as of now. Sampling activity continues to remain intense in the textile space.

On Palghar side capacity utilizations are still not up to the mark, even though order booking was quite healthy. Worker shortage you know has and also shortage of raw material has actually affected us in the last quarter and continues to impact us in this quarter. The shortage of raw material is because of the reasons I explained earlier. There are various players in the industry which seem to have financial difficulties. The good thing is we have added 2 more strategic customers in the Asia pacific region which whom healthy volume business has begun. Operating leverage benefit is maximum in the Palghar business and we are working hard to de-bottle neck and improve utilizations. Particularly in the Palghar business as the utilizations improve the impact on profitability is dipropionate.

In BCF there is nothing much new to report. Capacity expansion is on the way. Line utilizations continue to remain healthy and hopefully the new capacity should come on stream Q3 to Q4. New products like solution dyed nylon and Comfeel has already started to generate good enquiries and we hope to get some business in the coming time.

Overall, I think the company continues to make good strategic progress, but margin improvement may take some time. It is the same very progress that has made our promoters infuse additional capital to support our ambitious CAPEX plans. With this I hand over the floor to questions.

Moderator Thank you very much. We will now begin the question answer session. Anyone who wished to ask a question may press '*' and '1' on their touchtone telephone. If you wish to withdraw yourself from the question que, you may press '*' and '2'. Participants are requested to use handsets while asking a question.

The first question is from the line of Prajeeth Agarwal an individual investor, please go ahead.

Prajeeth Agarwal Hi Abhishek, definitely things are going low but as you said on the customer side there are lot of improvements. So that's comforting, to say the least. Though I just had a question on your inventories. Essentially your inventories look elevated. Could you give us a break up of your raw material inventory, WIP and finished goods?

Himanshu Dhaddha Basically over an inventory increase which you are seeing is majorly on account of FG inventory. Partially the reason is that we have increased our exports and exports there is a higher lead time, so hence the inventory increases. Raw material cost in terms of prices has increased and so hence in terms of volumes you will not see an increase in the inventory. But yes, on the value side there is a slight increase.

Prajeeth Agarwal Okay, and could you give us some idea of obsolete inventories that's you are holding in your books?

Abhishek Mandawewala No we don't hold much obsolete inventory. Whatever inventory is there is very much current and we of course have an internal metrics where we measure the inventory above 30 days but almost all the inventory we have there is nothing like obsolete. Whatever obsolescence there is in the form of down-grades which are already recognized in the books, so that there are no surprises later.

Prajeeth Agarwal Okay, so downgrades happen on a quarterly basis?

Himanshu Dhaddha Monthly basis sir. Every month we keep updating. And it is reflected in the books at a lower value.

Prajeeth Agarwal I think Himanshu ji, missed out on this. Could we get exact percentage of sale number for the quarter.

Himanshu Dhaddha Yeah, export percentage to the overall sales is around 34% in Q4.

Prajeeth Agarwal Okay, and just to understand about the BCF business; I believe Beekaylon is also commercializing the capacity this year. So, I just wanted to get your perspective on competition entering into your BCF segment in India.

Abhishek Mandawewala, I think it's a good question. Our BCF business is actually a global business. India forms a small part of the business that we have in BCF. And the competition that we have is all around the world, whether that is in Europe or whether it's in Turkey or whether that's in US or anywhere else. I think one new player entering the market with an additional capacity in the overall scheme of things in my opinion does not make much of a difference. That's all I have to say. And I think that the team here has worked hard to build a business, you know where there is almost a strategic relationship with buyers and typically, we found it very hard to add customers generally the process between sampling approval of products price discussion, it's typically a one, one-and-a-half-year process if not more, particularly with strategic customers and I don't expect it to be any easier for any new entrant. So that's my true sense about it.

Prajeeth Agarwal Okay. Abhishek, just to ask few more question about BCF. Last quarter you were mentioning that your pricing with the customers is decided on a 3-month basis. Which is very good. I was just wondering the depreciation of rupee should aid you in the realization or are you in a position where you have to pass it on to the customer?

Abhishek Mandawewala No I don't think the customers talk about rupee and all that. I think the pricing is either in let's say pound or US dollars or Japanese yen or something like that. Or Chinese Yuan or something for that matter. But generally, I don't think customers are too concerned about rupee. So generally depreciating rupee, Whatever exports we have is always a good thing but at the same time, depreciating rupee you must remember that the raw material cost also goes up.

Prajeeth Agarwal Just to ask a last question. Last quarter you were mentioning about Aquafil which is actually very close comparison, of essentially where we want to go. Where we want to be in the future. One of their products is called 'Econyl', which is essentially regenerated nylon fiber and they make BCF from it. I just wanted to understand are we planning to, because they commercialize a lot of capacity in this and they are expanding very rapidly in this particular product. Do we have any plans about you know regenerated polyester, or launching regenerated polyester or Nylon BCF in the future?

Abhishek Mandawewala We already have a product which is recycled polyester, but Econyl is a proprietary product of Aquafil. They worked couple of decades to get this product right. I don't think anybody apart from them has been successful. There is a reason for that. They have put in immense amount of intellectual property and also capital investment which has gone into making this product so successful. We are working on our own version of it. But that is not the only focus area. I believe that every company has their own niche. Every company is trying to create a space for themselves. This so happens to be Aquafil's focus area. This is one of the product that we are looking at. But is certainly not the only one. We have several other products in our pipeline which we have commercialized and are looking to commercialize.

Moderator Thank you. We take the next question from the line of Dhwanil Desai from Total Capital, please go ahead.

Dhwanil Desai 3 or 4 questions from my side Abhishek. First is, I think you know if I remember correctly, from the earlier calls is that our polyester business has slightly better quality than the nylon business. And you are saying that the scenario there is also not very supportive to the business. So, the impact is as is in the nylon business, or is slightly more ok in terms of deterioration in terms of numbers and everything.

Abhishek Mandawewala Okay. It's difficult for me to answer that question Dhwanil. But you can imagine that such kind of price relentless increases is definitely somewhere or the other you know it's going to create an issue. So, we have tried our best to pass through lot of the price increases, but you know there are always these pockets of resistance and even in polyester we have some commodity business where we found it a little difficult to entirely pass through raw material prices and this is time it's not raw material. I think it's overall. As I mentioned it's not chips or POY, it's dyes, chemicals, master batches and spin oil and transport, packaging so it's all round. So, I guess it takes time t pass through everything. And you know hopefully, things will settle down, we will get back to our normal situation and then we can sit back re-assess and evaluate what's a good business and whether we need to further increase prices or not, where is the position to increase, where is the position where we don't have any ability to further increase and you know may be we 0continue the business and maybe we replace the business, so, all that activity is still going on in the company, so there are areas which we have identified which in the current scenario are looking not very healthy, so we are looking at alternate business trying to replace those lines with alternate business, so it's a dynamic situation, but you know this is a absolutely steep rise and it's not always easy to pass on such a steep rise to customer. Somewhere or the other, somewhere in the value chain, the demand is going to start getting affected.

Dhwanil Desai: Okay, got your point. My second question is on the Palghar business. I think you know my understanding is that, these are kind at the 65% to 70% capacity utilization, and the primary reason for that was the lack of demand. And I think now what you are indicating is that the demand is back and the operational part and getting our things streamlined is the one which is kind of limiting our increasing capacity utilization there. So, any time frame that you have in mind whereby we can reach around 85% to 90% in Palghar business, a couple of quarters also. Any kind of a view there?

Abhishek Mandawewala It is hard to give a time frame Dhwanil. It's a good observation. Certainly lets say 4 or 5 months back one of the key challenges was actually bringing the sales which at least in the last 3 to 4 months I am seeing that on the sales front, we seem to be comfortable now it's more about, de-bottlenecking of capacities and you know as you try to increase the through put you know, every day you are always going to exercise a new challenge which you then need to overcome and then move on to a slightly step up volume and again you will face some challenge and you need to resolve that and so it's a step by step process. Difficult to give a time frame. But in the last quarter and particularly also in the Q1, we have also that additional impact. Palghar is the most manpower intensive operation that we have in AYM. And it's been particularly affected by during these months when workers go back to their villages, it's been particularly affected, it has affected our customers, it has affected our own plants, and of course we can plan a bit better, but you know, invariably these three months are difficult. Other issue that we faced in Palghar is also with the availability of RM. So, what has happened is, I think everybody has read about Alok on the news and you know, there are 2 or 3 other suppliers who are having a lot of financial difficulties right now, without taking any names, but even shortage of raw materials has actually impacted us. Lot of things coming together, but you know hopefully we should slowly and steadily start to see some better capacity utilizations even in Palghar going forward. But difficult to give a time.

Dhwanil Desai But sir is it fair to assume that we may still me operating that 65% to 70% level at least or even that would be difficult given the current scenario.

Abhishek Mandawewala So yeah, we are 70% to 75% currently. So, the same level we have been operating so far.

Dhwanil Desai Okay, a follow-up on that is so, this kind of a situation were by we have enough healthy demand on the sales side of it, but probably we have some bottle necks on the production side, do you think that the sales that has come back for the new plant that we have developed. We may find difficulty in terms of meeting the obligations and it may be difficult for us to get the momentum back on the sale side. Is that's one of the scenarios or the situation that you are in currently.

Abhishek Mandawewala No I don't believe that. I think the sales team has certainly done a good job, building up the pressure on the plant and I think it's always a chicken and egg kind of story. They go hand in hand, so you will always have periods where you are having better sales and then may be plant is not able to deliver to that extend, so you work a bit on the plant, de-bottleneck, again plant capacity becomes available, pressure comes back on sales. The sales team goes back, finds new avenues to bring sales, so it's a healthy competition between production a sale and it's an on-going activity of any manufacturing process. I don't think there should be any major impact on the momentum as such. Of course, there are customers, who, when you are not able to deliver sometimes if there are repeated failures, they might look at alternate vendors and such but you know I won't be too worried about it. This is part and parcel of a manufacturing business. You will always have those periods.

Dhwanil Desai Okay, got it. And my last question is, you know, we have been talking about the strategic business that we want to build in terms of high quality and a proportion of that business as an overall business mix. I think we were probably somewhere more than 5% in what we were indicating for last couple of quarters and we have added lot of new customers in that sense in different areas in different segments. So, and we BCF also my understanding is that the quality of business is significantly better and is of a kind of requisite quality that we have always intended for. So, do you think that now you know may be 20% to 25% of us overall business mix comes from a kind of business that we were targeting to build 2 to 3 years back. Is that a right approximation and assumption on that?

Abhishek Mandawewala I will go business by business there. In BCF I would certainly say good part of the business is strategic in nature and we have close relationship with our customers and you know we work very closely with them on their requirements and it's not like an unlimited barrier to entry but there is some barrier to entry, there is an approval process, there is a time before which customers actually approve and start business with you. So, it's not just, reduce the price by 2 cents to 5 cents and start getting the business right away. It's not going to work like that. In Palghar I think, good progress has been made on that front. We have added, we continue to add, last 3 quarters we have added 1 or 2 new customers, strategic in nature and thankfully we continue to do business, and the customers that I spoke about, couple of quarters back, last quarter, the volumes with them, it seems that they are stable or increasing and we continue to add new customers even in this last quarter we have added couple of good new strategic customers in POY Tech, which is the textile division I think, we have now started to inch up certainly above the 5% mark. I don't know about 25%. But as I mentioned, I think in the last 2 or 3 conference calls, starting from a major automotive player in let's say UK to this American customer, it's multinational company, 10 billion plus and the demin manufacturers which we added, we continue to do healthy volumes with them. Even the French retailer which we added. So, all of these businesses, they are either stable or growing and that's a healthy sign. So, you know, if every quarter we can add one or two customers like this, over a period of time it will all add up. And before you know it, it will form a significant part of the business.

Dhwanil Desai I think me understand is that we are kind of been adding these strategic customers, but it will take some time for us to reach the desired margin levels you know given the kind of iterations that we have to go through and the efficiency that you have to build in slowly right. Is that assumption right Abhishek?

Abhishek Mandawewala Absolutely. The more the critical the business, the more difficult it is to manufacture, the more likelihood that the efficiencies that you get and the first quality that you get is going to be lower percent as compared to let's say a commodity business. So, it's takes time to reach that optimal point where you are producing the desired amount of fist quality in terms of percentage, you re producing it with the right efficiency. So, it's a learning process for us, we are going through that learning process. As time goes by, as long as we continue to be in this same direction, it's a matter of time.

Moderator Thank you. The next question is from the line of Rohit P from Marshmallow Capital, please go ahead.

Rohit P Thank you for the opportunity. It is always a pleasure to hear you speak Abhishek. You are quite candid about the positives and the negatives. On the negatives bit I was wondering how we intend to resolve the raw material issue. Because it seems like it's more of a structural issue rather than a cyclical issue, because as you said, many of the suppliers are going through financial trouble. So how do we go about resolving this.

Abhishek Mandawewala There are 2 parts. There is one element where the local players some of them are going through financial problems, but also globally where the demand is I am not too much into the macro stuff, but globally it's controlled at with a demand supply in China and it seems that all round the world the raw material prices are going up. It's not just India. Some of that is driven of course by the crude oil price, the raw material that we have is actually derivatives of crude. So, some of it is a supply demand thing, some of it is a crude oil thing also. So of course, we have absolutely no control over it, but the only remedy to that is to be able to pass on the prices to the customer. That is the only way you can deal with it. There is no other way to deal with it.

Rohit P Understood. The next question I have is, given the new kind of business that we seem to be winning would I be right in thinking that this sort of a perfect storm that have witnessed this time, will become hopefully less going forward. If these conditions come again.

Abhishek Mandawewala So far for the last 4 to 6 quarters it has only becoming more perfect if it's the way. So, you can never say, you know people keep asking, where is the bottom. I don't know where the bottom is frankly. Luckily at least the last 3 to 4 quarters somehow, we have been able to inch up our profitability every quarter. Slowly it's inched up. Lot of efforts have gone into whatever the results are. Lot of cost reduction activities are going on in the factory, Large number of initiatives. Big tickets, small ticket many areas of improvement have been identified on which we are working. Hopefully things will stable, will settle down. I mean, you know, the business of very good times in 2015 and 2016 is seeing a bad time right now. And it's a matter of time before we see a good time again. And hopefully that buoyancy will raise the result also and you know by that time some of the impact of the good work that we are doing will also start to show. And so, it will be like a double positive effect. Hopefully.

Rohit P The question I had was, let's say we continue to get the business like the French retailer, the other such business that we get. So, would our ability to pass on Whatever price increases be better in those businesses going forward, because in that case we would be less impacted by such events, that's where I was coming from.

Abhishek Mandawewala Yes of course. The higher quality business by definition without talking about particular customer to any particular area, the higher quality business by definition is going to have a better ability to pass through the increases because you know, the higher the quality, the less the options that the customer has in terms of the suppliers. So, you are always in a better position to pass through the raw material price increases, no doubt about that at all.

Rohit P Understood. And on the CAPEX that we are doing, the expansionary CAPEX, by when will it come on stream. I think the adding capacity on BCF if I am not wrong.?

Abhishek Mandawewala By Q3 or Q4 I think we should start seeing. Only question is by when we should start utilizing the lines fully and so that. So, am hoping that by Q3 or Q4 we should start seeing some part of that CAPEX to start ringing phase.

Rohit P The next question is, it might be difficult for you to say that right now, but do you see any dilution required over the next 3 to 4 years.

Abhishek Mandawewala Difficult to say but sitting in 2015, I dint think that there was any dilution required, and we did dilute. Of course, there was a good demand that you were seeing in our business, strategic area of the business was growing, so you know, that was a call that we took. But difficult to answer that question.

Rohit P Okay got it. One last question. On the 3 lines of business that we have, could you share the average age of the machinery that we have there? Is it possible?

Abhishek Mandawewala I think investments have happened over the last so many years, so average age I don't think we measure that, I can give you a brief idea as for Palghar, it's a 30-year-old plant it's the first. When business was started with the Welspun group, it was the first plant of Welspun group. So, in Palghar we have machines as old as 30 years. And they are machines as new as 2 months. So everything in the middle. Same thing is with the textile business. I think the plant started somewhere in 1994 - 1995, so we have machines as old as 22 to 23 years and machines as new as let's say last month, so everything in the middle. And then BCF of course it's a 5-year-old business, so most of the equipment if relatively new.

Rohit P Okay understood. Just one more question from my end. From my understanding with the advancements in technology do you think the older machinery is a source of disadvantage if you continue to hold them, because in some cases the bad changes and he production capacity per hour and all that won't be as good as in case of new machinery. Is this the right way of thinking about it?

Abhishek Mandawewala That's a very good question! I think it's a tradeoff. The higher the quality of business the more it becomes difficult to make it on older machinery. It's a very good question, but the way to deal with it sometimes is, you know, you need to keep upgrading, you need to invest in spares, you need to invest in the preventive maintenance, and many shops that the machines are in perfect condition, but certainly and new investment or machine which is bought today will in every aspect perform better than a machine that is 30 years old. But at this same tie I can say that some of this quality business that we are doing, we are doing it on lines that are let's say 20 years old. So, if you can do that, I think you have a fully depreciated line, on which you are doing high quality business and I think there is nothing better than that. And then after that as the business grow and you add lines, the business only becomes easier. IF you are able to make it on the old lines, then as you have new lines your efficiencies would only be better, your downgrades would only be better, you will be at a much better position to generate a slightly higher amount of profitability as compared to making the product on the old line. But then of course you don't have the burden of depreciation in the old lines.

Rohit P Understood. But give we don't have enough space in the factory, don't you think at this point of time it makes sense the old machines with the new machines.

Abhishek Mandawewala No, I think one of the key thins which I have seen about our company is that the operating leverage is fantastic. So generally, it makes more sense to add the machinery rather than replace the machinery. Because every incremental ton of business gives us disproportionate profitability. So, fixed cost structure is very high, and you know, the fixed cost structure is good enough to significantly increase the volumes from here. So yes, we face some space issues, but there are ways around it. I think we still have place to make some more buildings in the land that we have. Currently I think we need to first tilt some product mix also. Use the same equipment to tilt some product mix, remove some of the low profitable or non-profitable products and then replace it with some better products. And then we can see then in textiles. In BCF, we felt comfortable, so we expanded the capacity. May be in some time when we feel comfortable, maybe we can think the same in textiles.

Moderator Thank you. The next question is from the line of Ayush Mittal from Mittal and Company, please go ahead.

Ayush Mittal Good afternoon Abhishek. I was looking at the gross margin. I think the RM cost for us has gone up in that quarter. In between we were doing RM cost was around 51, 52, 53 odd percent. Since last 2 quarters they have been inching up. Any comments on this?

Abhishek Mandawewala Certainly you know as I said. The margins have certainly been affected. You know the extent to which the raw material prices have increased, in some of the businesses we have been able to pass through, but some of the businesses we have not been able to fully pass though. Particularly lot on the commodity side. And we have some products which are not hat remunerative, and you know some of the share in some those kinds of products has may be increased, so maybe these are some of the factors because of which these situations have happened.

Ayush Mittal but like earlier you had mentioned that nylon business was perhaps making losses or was not contributing anything, is that situation still the same? And the reason being this or this time it's due to the polyester?

Abhishek Mandawewala Are we talking about EBITDA, or are we talking about gross margin now?

Ayush Mittal Gross margin.

Abhishek Mandawewala Gross margin, all our businesses are contributing we have some businesses where you know at a contribution level also we are trying to replace that business because the contribution level is very minimal. But at a gross level, all businesses you know, they are contributing. It's at the EBITDA level where the nylon business becomes slight of a question mark. So, have I answered your question?

Ayush Mittal No. My question was like, as EBITDA level as we were making losses in nylon, is that continuing? And these this cost increase has been due to polyester now or is it that nylon thing has improved and not something else is happening.

Abhishek Mandawewala Okay. Nylon has improved slightly if you ask me, since the last quarter, but not significant improvement. But with the polyester prices increasing significantly we certainly see some pressure on margins on the polyester side too.

Ayush Mittal and that has reflected in this quarter already.

Abhishek Mandawewala Yes. Partly it has got reflected in the quarter because the increase has started happening from July, and there were rapid increases in Q4 and also Q1. To simplify, what happens is, Polyester, most of our raw materials is local, so as the prices goes up, the booking position is generally let's say, a month or a month and a half. So, we have orders a month and a month and a half old. And the raw material is let's say 6 days, 7 days, and 10 days. In Nylon it's the other way around. In nylon, the raw material is imported so we have a long lead time in raw material, but the business is mostly in the local market, where you know the positions are let's say 10days to 15 days. So, it's the other way around which happens in nylon when the prices increase. But nylon I think in the last 3 months or so the prices has been stable or slightly on in line with a quarter before. It's the polyester which has significantly gone up.

Ayush Mittal But even in polyester, like as the margins are limited and it's an industry wide phenomenon, the price increase, ideally all of this thing should get passed on in a quarter or so?

Abhishek Mandawewala It depends on the demand and supply Ayush, in the commodity areas. In the good business, it is easier to pass on the whatever the price increases go up. But in the commodity business, sometimes it really depends on the demand and supply. So, for example, may month have been challenging from a demand point of view. So, we might not be able to pass through everything and then hopefully if the demand improves, we might be able to pass through a little bit more. But over a long period of time, all things even hopefully the prices should be passed on. But you have to remember that it's not just a raw material which has increased, not just the chips but everything has increased. There was a sudden increase in the power cost, there is a sudden increase in dyes, chemicals, master batches, so several of these let's say raw materials of consumable materials have actually gone up.

Ayush Mittal My next question is more about capex, if you think about a company for last 2 to 3 years we have been investing quite a lot into improving the capabilities, quality, business people who are much more experienced, knowledgeable, all those things has been happening. But if you see the turnover is stagnant at certain level and the margins have gone down drastically. So, for next year to year perspective, how do you see things including, like what kind of mile stones do you see. Is it that the turnover growth also which we will see to grow and sprout of this current scenario or is it just the internal replacement of good business from the bad ones.

Abhishek Mandawewala There are 3 or 4 parts in which I will answer this question. So, let me re-phrase and say what are the levels of opportunity that we have at present. Number 1 is of course adding of the capacity. Let's say in textile business we are running very close to good amount of utilization and efficiency. But in BCF where the expansions are coming we will have a let say, increase in turnover that side. In Palghar the utilizations are not full. So that is again which will add to the increase in sales and as a result add disproportionality to the bottom line as I said the operating leverage is high. So that is one part. The other part is margin improvement. So, some of the business is where the profitability is extremely poor. You know we have to try and replace with some of the strategic business which is slowly and steadily getting added. So that is the second part of the story. The opportunity there is maximum in let's say the textile business, in the nylon and polyester space. And the third and important part of the story which we have been aggressively been working on is looking at internal production matrix such as downgrades excess productions efficiencies in some areas, utilizations, consumptions, costs, all of these are also other, this in itself particularly let's say in the Rakholi plant is a fairly sizable opportunity for us to also provide additional bottom line without having to increase the topline. So, these are the 3 areas in which we have the opportunity to significantly increase our bottom line.

Ayush Mittal One more question about your customers. The prestigious customers that we have bagged over last may be in a year or 2, have we been able to scale up segment level with some of them. If you can give us some sense on the quantity that we would be doing for some of our prestigious largest customer. Like is it a 1000, 2000, 5000 tons or how is that scaled over last 2 to 3 years, any indication in that?

Abhishek Mandawewala, I think the volumes are sizable enough. Whether they are 5000 tons, I don't think they are anywhere close to 5000 tons. Each of these customer, as I said they proceed very slowly and steadily starting with sampling. As the relationship gets deeper, the volumes keep increasing. Let me give you the example of this let's say the American customer that we have recently added. So, we started with one of their plants in one location. We started doing business with that location they have plants all round the world. They have may be 10 to 15 locations in which they have plants. Since they are impressed with what we did int hat location, they referred us to a second location, now that second location has started placing regular orders to us. And in fact, both these locations together have given us projections till December. And now both the locations are happy. So now they are talking about adding a third location. In the third location, sampling is going on. If that all goes through, the 3rd location will get added. But this customer who whom we have been working for 2 years, may be around half a spinning line will be occupied in this customer. May be the projections that they have given us so far in the 2 locations will be close to, let's say 30 to 35 tons a month. And hopefully we can if we continue to give them consistent delivery and consistent quality, which in itself is a big deal, the quality of product that they expect very few suppliers are able to match the consistency level and provide it on a regular basis in a consistent fashion in an on time with regular OTIF. Over a period of time you know, this 30 tons will hopefully become 50 and then that will become 70. Hopefully it will become 100. It's a large you know, probably the turnover is on excess of 3 or 4 or 5 billion dollars. And you know we are just a very small part of that 3 to 5 billion dollars. So hopefully as and when they develop more comfort with us, hat 30 tons can hopefully go to 100 tons. Because the supplier that we are replacing here is a European player. He is an Italian company with Italian over heads and Italian costs. So, if we are able to match that quality and match that consistency, why will he not want to but from us and why will he not want to increase the volume. But it will not happen in one year. And it will not happen in 6 months, but I can certainly see that whatever customers we have started with, the volumes are steadily stabilize and then maybe you get a new program and again it starts increasing. So same thing with the denim manufacturer we added. So, we started with let's say 20 to 30 tons per month and then somehow last month they placed an order of let's say 100 tons. May be next month they might not place 100 tons. They might only place 50 tons; but you can see that they started with 5 tons sampling, 2 tons, one ton and then they went to 10 tons and then 20 tons, they got comfortable hence they went to 30 tons & 50 tons. So, over a period of time, the business will increase if we are able to maintain the consistency and quality. Same thing with all the other customers. Even in Palghar. We added a very strategic customer, 2-billion-dollar group, which is having major supplies to companies like Victoria Secret and Nike. So, they started developing us for one of their customers, and when the supplies became consistent, now they are talking about other customers. So, some of their other customers they are developing products for us. IF we were doing let's say it took us one and half years and we were doing may be 2 tons or 3 tons and grew to 10 tons, and slowly 20 tons and now they are talking about, say 30 tons or 40 tons a month, which for Palghar is a fairly sizable quantity. So, over a period of time if we all these people have been added all these internal capabilities building exercises that we have done this is the precise reason why we have done it, so that we can survive these customers, coz these are demanding customers. They are not the same as the kind of customers that we work with for commodity business, where you know you are literally just made to stop stalking the material selling the material in the market you know price movements 2 or 3 rupees plus or minus. It's a very different kind of business. It's a very different business and anybody with have to go through the same pain that we have gone through to be able to, or that we are going through currently to be able to survive these customers and you know profitably service these customers.

Ayush Mittal That's it. This was very helpful. So, given all these customer wins that we have been having and all these good developments that we are having. Have you set any, like if I look at the peers, the kind of margins currently we are operating is perhaps equivalent or less than to any other commodity players. While given what we are doing and as we are getting better in a business, any time line that you can indicate or you have set for yourself or any target on the margins that you want to achieve in a reasonable period. Anything on those lines? Any thoughts on that?

Abhishek Mandawewala Already you would have noticed from some of my conference calls I am very wary about giving futuristic kind of statements and you know, you have seen the volatility that we have seen in the last year and a half. Of course, it might not be entirely normal, I don't think every year will be as volatile as the year and a half that we have seen. So, the situation you never know what the situations is, how things will change. It's very hard to say. But is the company making progress in the right direction? I agree. The other thing about the margins, while the EBITDA margins are in line with the commodity players but if you see the gross margins, there miles different as compared to the commodity players. So again, the elements at the operating levels is very high and if we are able to de-bottleneck some of these areas and if we are able to successfully see through our cost reduction in a certain if we are successfully able to add these volumes, the incremental addition or incremental tons adds disproportionality to the bottom line. And adding the incremental tons is easier than setting up the business in the first place.

Ayush Mittal My Question actually was that, as your gross margins are so good, to harness then into profitability you need to scale up your business also.

Abhishek Mandawewala Correct and we are working on that. If you can see, you can see that in Palghar we have some capacity available, of course we are having issues to ramp up but slowly and steadily we are getting there. In BCF you can see that they are slowly increasing the business. We have a limited amount of capital at the company level. And now we have to decide which business where to put how much and which is giving incrementally best returns and stable returns. And on the basis of that the company is investing to add the capacities also. Up until now maybe we did not expand so much on the capacities an even whatever capacities we added some of that got consumed to actually make up for the loss of margins. But you can see for example in BCF were we feel confident about our business a little bit more than the other areas. We are adding the capacity so that of course the incremental return on capital will hopefully be much better than the overall return on capital of the business, with the additional tonnage and the high gross margins.

Moderator Thank you. The next question is from the line of Pratik Choudhary, and individual investor.

Pratik Choudhary You said that in the month of May the demand has slowed down a bit. So, could you give some more light on that. Is it more of a seasonal slowdown in nature or is it something else. I don’t think it’s a major slow-down.

Abhishek Mandawewala I think it’s just a seasonal issue as I said, many of our customers face the same labor issues that we face as well. So, their plants are not running at full utilization and thereby they are also not buying the raw material to the same extend. I think by the month of June I think things should start settling down.

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

Himanshu Dhaddha Thank you all for participation. That’s it from our side.

Moderator Thank you. On behalf AYM Syntex Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.

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