



**AYM Syntex Limited**  
**Q4 FY19 Results and other Business Update Conference Call**  
**May 6<sup>th</sup>, 2019**

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

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**Moderator:** Ladies and gentlemen, Good Day and Welcome to the AYM Syntex Limited Q4 FY19 Earnings Conference Call to discuss the results and other business updates.

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

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

Before we begin, I would like to state that some of these statements made in today's discussion may be forward looking in nature and may involve risks and uncertainties. I would like to hand the conference over to Mr. Himanshu Dhatta for opening comments.

Thank you and over to you sir.

**Himanshu Dhatta:** Thanks. Good afternoon everyone. I welcome you all to the conference call on company's behalf. Let me start with the short update on fourth quarter performance which is already available in the public domain and even also uploaded on our website.

So, AYM Syntex posted revenue from operations of almost 264 crores for the quarter ended 31<sup>st</sup> March, 2019 which grew by 16% over the corresponding quarter last year and by 8% over Q3 FY19. On a full year basis, our company has shown a growth of 17% in the revenue as

compared to FY18 on account of higher export sales. This quarter EBITDA as well as well as the sales numbers are at the highest levels in last 10 to 12 quarters.

In terms of tonnage, we did about 13,726 tons which was almost about 15% more as compared to Q3 FY19 and 6% as compared to Q4 FY18. On full year basis, the overall tonnage sales was around 50,500 which is at similar levels to last year.

Export as a percentage to NR was at 35% in FY19 as compared to 32% in FY18 on account of higher BCF and textile export sales. Stability in the demand was witnessed in Q4 FY19 post the input price stability resulting in better volumes in this quarter. BCF and IDY expansions which got operational in the recent past, got stabilized in this current quarter and the benefit of it will accrue in FY20. EBITDA for the quarter has improved and it was at around 23 crores which is 9% of NR as compared to 19.4 crores in Q4 FY18 and 19.9 crores in the last quarter.

On a full year basis, we stood at around 77.5 crores EBITDA as compared to 69.3 in FY18. The EBITDA per ton in the current quarter was in line with the previous quarter at about 16,600 per ton and it was on a higher side while comparing to the Q4 of FY18 which was at around 15,000 per ton.

Profit after tax for the full year ended March 19 stood at around 5.8 crores as compared to 7.9 crores in FY18 on account of higher depreciation and interest expenses due to increase in CAPEX including the BCF lines CAPEX.

The net debt figures stand at Rs. 274 crores as on March 19. The net debt to EBITDA ratio is at 4.3, but with no further CAPEX, we work to ease this out in coming few quarters. The current ratio was at 1.03 level and as far as the update on CAPEX is concerned, in current year, we spent almost 16 crores of CAPEX, however capitalization was at around 17 crores. Project 6 is almost over with 101 crores of CAPEX being incurred out of 119. I believe we are almost at the fag-end of the CAPEX cycle with no further CAPEX in next few quarters.

With this information note, I am handing over to my colleague Mr. Abhishek Mandawewala who can provide more business updates. Over to you, sir.

**Abhishek Mandawewala:** Good afternoon everybody! I welcome you to AYM Conference Call. I will start with the updates for nylon and polyester textile business. I am happy with some of the progresses that we have made and we are finally starting to see positive impact on the results. We have full bag to celebrate in this quarter, March was the first time when we had crossed 100 tons in the IDY segment which has also been a focus area for us. Our IDY products has also picked up pace and we have crossed 100 tons in the month for the first time. As a result of some of the throughput improvement projects that we have undertaken in the last few months, several new production records were set including splitting and air texturizing amongst others..

On cost reduction front, we continue to work to rationalize manpower cost as can be seen from the results, although we are near the end of that process. A new boiler was fired up for the first time today which should further bring down utility cost.

As of 30<sup>th</sup> April, we have surrendered the rented warehouse and this will too bring down expenses. Several new raw material suppliers are currently under trial and I hope that within a quarter or two, here also, we should be able to make some good savings. With higher throughput, our downgrade numbers are also close to the lowest in this quarter. On the throughput front, I feel that there are lot of initiatives which are still under testing phase. This is very important area for us because as you all know our business has involved high gross margin, high fixed cost and high operating leverage and any contribution earned on volume increase goes directly to the bottom line. Minor increase in volume leads to disproportionate improvement in profitability. This quarter while spinning utilization was close to 92%, throughput improvement project should help us increase in volume without incurring any major CAPEX. Texturizing utilization was at 67% and while this was towards the higher end of the historical range, there is still plenty of opportunity to improve.

I will now move to the Palghar front. Palghar business continue to remain low in this quarter in volumes terms, however, response in several exhibitions, particularly in carpet area has been very encouraging. We have now launched two new products in this segment and while we are currently struggling with teething issues in both the products, we are confident that going forward, we will be able to solve them. On volume front, both these products have the potential to fill the void that we have been facing for the last few quarters. Operating leverage is highest in Palghar and this is a low hanging fruit for us that we must have to encash. We are now looking to strengthen the structure in Palghar which will enable us to overcome this sales issues.

I will now move to the BCF area. Focus continues to remain on filling up new capacities as couple of quarters back, we expanded our capacity by almost 60%. On an average, two lines remained ideal in last two quarters. However, there is a long list of customers with whom sampling is underway. Some of these customers are strategic while some are opportunistic and we hope that more strategic customers will fill up the balance as opposed to the opportunistic ones.

On tricolor front, while we have been able to pick up some business there is still some more work to do. There are several customers which are under development. We have created couple of new products that we have developed for them and these are really complicated and once we are able to grab this business, it will be really hard to replace. We have also added a major customer in solution dyed nylon (SDN) in the last quarter.

This customer can potentially be our biggest buyer in SDN within a couple of quarters itself. Response from our customer and so from end user or retailer in **Comfeel** has been extremely

encouraging and going forward, if all goes well, this too can play an important part of our business. With two additional lines, the potential operating leverage in this business too is immense and that should be our target going forward.

Moving on to CAPEX, as Himanshu mentioned earlier, the CAPEX cycle is now completely over. There are few residual payments pending from before, but bulk of that has already been completed in the quarter gone by. There are no further projects in the pipeline which means from here on all our cash flow should start contributing towards reduction of debt and need to borrow some 5 to 10 crores of annual maintenance CAPEX. With exception of any major change in working capital, we have paid peak finance charges in the last quarter and this too should start reducing from here on leading to further reduction in next year.

Despite no CAPEX lined up, our throughput improvement initiatives and filling up of ideal capacities should comfortably allow us to grow over the next couple of years. I, now hand over the floor to any questions.

**Moderator:** We will now begin the question and answer session. The first question is from the line of Dhwanil Desai from Turtle Capital. Please go ahead.

**Dhwanil Desai:** Three questions. So, first one is if we look at March 18 quarter versus March 19 quarter our throughput has increased as revenue has increased by almost 16% and I think as you mentioned you have a higher operating leverage business, but when I look at the EBITDA margin net of other income they are almost at the same level of March 18, so can you help me understand as why the operating leverage being playing out on a Y-o-Y basis?

**Abhishek Mandawewala:** Can you repeat that last part again please?

**Dhwanil Desai:** If we look at the EBITDA margin, March 18 EBITDA margin net of other income was around 7.9% and it remains the same in March 19. I mean, I was expecting that with a volume picking up and the revenue picking up the margin should drop or not, so I mean which area has kind of not helped us move the margin on the higher side?

**Abhishek Mandawewala:** So, there are a couple of points here. Number one, some of the volumes that have increased in the lower margin areas, but most importantly, I think one of the key reasons is also on the power cost front. If we look at the cost in the last March quarter which is let us say year ended March 18, I think the power cost was at the lowest that we have ever had so far. So, the power cost in that quarter was close to around Rs. 3.4 to Rs. 3.5 per unit versus today's power cost which is almost close to Rs. 5. I think on the cost front, there is a major difference in the power cost. I would say one of the major reasons for the operating leverage not to play out to the extent is towards this and also the fact that some of the increase in volume has happened on the lower margin front. So if you see Rs. 1.5 per unit and we have consumed almost between

80 lakh and 1 crore units just in Rakholi alone. If you add up the impact of that in just one quarter, it is a significant amount of money.

**Dhwanil Desai:** Yeah with this boiler firing up will it help it anyway?

**Abhishek Mandawewala:** The boiler will help us in reducing the cost of steam but not in the power. So, I do not expect any power cost saving in Rakholi although you would have heard that in Maharashtra, there is Rs. 2 incentive that has started on power cost, but there number of units consumed is much lower than Rakholi. Also, in Palghar the power cost has gone up in the last one year, but again the number of units is much lower.

**Dhwanil Desai:** My second question, We have spent close to around 200 odd crores or 150 to 200 odd crores in last three, four years now with everything being setup and we are at the fag-end of the CAPEX cycle or almost at the end of the CAPEX cycle, what is the peak revenue or in terms of peak tonnage that we can look out for in terms of capacity with the current assets in place if you can expand on that?

**Abhishek Mandawewala:** So, I will not really give you an exact number, but let me break it down business by business, so in BCF, as I said from 12 odd lines we have couple of lines which are idle and in Palghar, We have the opportunity to increase our throughput. From the last quarter if you look at the volumes, we have the opportunity to increase our throughput by almost 25%. That capacity is available which we have not utilized. Similarly, in the textile space, while we are at almost full throughput or full capacity utilization, but some of this throughput improvement initiatives can give us at least 10% to 15% extra volume in the next four to six quarter. So, I will answer the question in that way that in all the three areas, we have good opportunity to actually increase the volumes and there is no significant CAPEX required for all.

**Dhwanil Desai:** And last one is on the Palghar, So in Palghar at what capacity utilization we are operating at and in your estimate how long will it take us to the desired level of 90% plus?

**Abhishek Mandawewala:** So, as I said Dhwanil, we have ability to increase our throughput by almost 25% from where we were in the last quarter and this should contribute to the bottom line meaningfully. Now, we have been struggling on the sales front in the last couple of years, we have tried few things which do not seem to have worked and now there are two areas that we are looking at. Number one is the carpet area, I think this was totally unexplored in Palghar and we have recently got our carpet team involved in the Palghar business about 6 to 8 months back and they have already started to bring business, but again that is on the commodity front. Fortunately, in the last quarter as I said, we have launched two new products and they are extremely exciting from the customer's point of view. Now, we are facing some teething issues, but once we overcome them, I feel that these can contribute meaningful to our volumes, Overall, I think the carpet team has delivered for us in the BCF area and I believe that they will be able to deliver for us in Palghar also. The volume that we are looking to fill up from a carpet

industry point of view, it is not that significant. There are people who are doing much higher volumes than us in that space.

Other thing, for rest of the team also, we are looking to reinforce it. I think there are some gaps or pockets that need to be reinforced. We are working on that and hopefully by the next quarter I should be able to share something with you.

**Moderator:** The next question is from the line of Ankit Gupta from Bamboo Capital. Please go ahead.

**Ankit Gupta:** I just wanted to understand the two lines which are idle on the BCF front. Are these the tricolor lines which you were saying that it will take some time to ramp up and mono-color lines have been largely filled up?

**Abhishek Mandawewala:** As I said, the tricolor line is interchangeable with mono-color so you can not only make tricolor on it, but mono-color also. So, I think out of two lines, you can say that one is tricolor and another is mono-color, but at the end of the day, it is two lines which are not running. It does not matter whether you say whether it is mono-color or tricolor.

**Ankit Gupta:** And when do you expect that this lines will also be filled up the remaining day?

**Abhishek Mandawewala:** It is very difficult to say that by what time it will be filled, but as I said in my commentary earlier, we have huge list of customers with whom sampling is underway and lot of this has been initiated in the last 12 months. As we all know, the cycle time of BCF is much longer than regular business, so I am hopeful as how we have been able to fill up lines in the past likewise I am quite confident that we will be able to fill these lines also sooner rather than later.

**Ankit Gupta:** I am just taking Dhwani's questions further on the incremental capacity which is possible from all the four business let us say BCF and Palghar and nylon and the polyester side, so I think what do you say that approximately easily 25%, 30% of the volumes can be added with the optimal utilization of all the facility plus the BCF facility which has come up recently, so is this the realistic assumption to make at least 25%, 30% volume growth. I am not asking for the timeline but 25%-30% volume growth is easily possible with our existing capacity in hand?

**Abhishek Mandawewala:** No, I think that is little too optimistic. I do not expect 25% to 30% kind of volume growth, but as I have earlier broken down for Dhwani for the three businesses, let us say about 25% in Palghar is certainly possible. With a base of last quarter, of course, we have done better volume in Palghar before also. So, if you take highest volumes in Palghar and compared to that then it is 10% to 15% only, but if you take last quarter about 25% is possible in Palghar. In BCF too, out of 12 lines, you can work out the Math in the textile business, about 10% basis of the business is possible. I do not know exactly what the number will be, but you will get a rough idea of the three businesses.

**Ankit Gupta:** In the last 6-8 quarters have been challenging for us on the nylon and the polyester side, so recently in the last call also, Abhishek you were mentioning that from October to January-February, it was a very tough time because of the price volatility. So has the situation stabilized now?

**Himanshu Dhadha:** Yeah, I think in the last quarter, more or less the prices have been very stable and barely 5% to 7% is moving here and there which is not significant and hopefully it will continue in this way, but cannot say. Eventually, this quarter was fairly stable.

**Ankit Gupta:** What I was saying that in the company for almost three- four years now, nylon and polyester has faced significant margin pressure over the past two years let us say, so do you think the worst is behind us and at least we can see some improvements in margins there?

**Abhishek Mandawewala:** At the end of the day, not in the polyester but in nylon business, we are in very fairly commoditized space and margin is a function of supply and demand. So, again very hard for me to predict whether it will increase, decrease or remain stable. But, even if it remains where it is as I said the incremental throughput that we get should be able to contribute meaningful to the bottom line. At last, we do not make any products where the gross contribution is negative. So, any throughput that we add should be add to the bottom line.

**Ankit Gupta:** In this nylon and polyester we have been mentioning in the past few calls at least 5% to 10% of the business has move towards let us say non commodity or specialized type of business, has there been any further development on that side or auto side or some other area that we have been targeting for? Any significant development on these segment over the past three months?

**Abhishek Mandawewala:** Absolutely! I have already given updates on IDY in my earlier comments as well as Wonderfeel, which is the rugs area where we have crossed 100 tons for the first time. On Automotives, our volumes have been stable with no major change, but one thing that has happened in the last three months is the list of customers who are now currently under approval have gone up significant. So, automotive in my opinion is the hardest business to crack. It takes the longest amount of time amongst all. For me, the only way to measure the team performance until we actually start getting the business to look at the number of samples or customers under developments or to look at the number of potential programs and on that front I think, we are probably at the peak point than we have been in the past.

**Ankit Gupta:** So we have been maintaining that number has remained around 5% to 10% on the non-commodity side of the business so has that improved further?

**Abhishek Mandawewala:** Barring the IDY and Wonderfeel, possibly some automotives, I do not think that there has been major change, but these two products did not exist two years back and they are now form a 100 ton volumes for us which is fairly meaningful.

**Ankit Gupta:** Any number in mind? Abhishek I am not asking for the guidance or something but where do you see this number improving let us say over the next two-three years, the kind of effort you guys are making and the team is making, do you think this number can meaningful inch up to let us say 20%, 30% so that the cyclical impact of this business gets largely mitigated that with the kind of efforts we are making, this numbers reaches to around 25%, 30%, so is it possible to see that kind of number over the next two-three years?

**Abhishek Mandawewala:** Very hard to say, I do not want to commit a number whether it is 20 or 30. All I can say is that the efforts are in the right direction, but as I said earlier in my commentary also, you will be able to see the impact of throughput improvement much quicker than the impact of let us say the improvement of quality of product mix, so when the throughput increases, all extra contribution goes straight to the bottom line. In a product mix change, you are only getting the difference between contributions that you are earning earlier versus the extra contribution that you will make in a new product. So, while the efforts are on the specialty side and we have already build up a set up, we have already build up an infrastructure and there is no doubt in my mind that the volume of this business will keep going up, but in the interim, in order to bring up our profitability, I think the fact that our gross margins are relatively higher as compared to our peers and our fixed cost are relatively higher as a percentage of our sales. It is imperative that we get our throughput up as soon as possible and when we get our throughput up, the profitability will itself improve and while this happens, we can continue to remain focused on our specialty business and that will keep improving the quality of business going forward, but while saying that, let me tell you that in terms of cyclicity, we probably are somewhere closer to the bottom of the cycle. In any case, the kind of margins that we are operating at, it has been lowest in the last 5-7 years. So, even from the cyclical angle, I do not see unless people start selling cheaper than what we are selling today, but if you look at nylon, for example, there are no new capacity announcements that have been made in the recent 6 or 8 months and the lead time for anybody to put a new capacity is at least 2 years given the backlog that some of the machine manufactures have. So, I do not foresee any significant capacity addition in nylon over the two years and unless there is something drastic that happens or some excessive dumping or something out of the blue which happens, I do not foresee that there will be significant reduction in prices from here on.

**Ankit Gupta:** So last question, Abhishek on the competitive intensity the last two years have been tough, so have you seen some of the small or marginal players going out of the business because of the kind of volatility and the kind of challenging time we have seen, so basically I am trying to tell here is, there has there been any reduction on the supply side for our products?

**Abhishek Mandawewala:** Not really, the only thing that happened with our lot of competitors is, their balance sheets have gotten stretched, but apart from that, I do not think there are anybody has officially gone out in the nylon space, but I know that there are some players who are operating, I do not want to name anybody, and there are players who are operating below the capacities at which they were operating because of working capital issues.



- Ankit Gupta:** So, at least some benefit can accrue out of that?
- Abhishek Mandawewala:** I would not count on it.
- Moderator:** The next question is from the line of Ayush Mittal from Mittal and Company. Please go ahead.
- Ayush Mittal:** What could be the capacity utilization at the new expansion that we have done in the BCF segment?
- Abhishek Mandawewala:** We have put in four lines, two of which are occupied and rest are unoccupied.
- Ayush Mittal:** So, in this quarter, the revenue growth is because of this utilization of the new BCF capacity?
- Abhishek Mandawewala:** Not really, we have had record volumes even in the textile business, we have had significant increase in volumes and also some BCF volume have gone up.
- Ayush Mittal:** Any percentage that you can give of the utilization at the new expansion that we have done?
- Abhishek Mandawewala:** As I said Ayush, it is about 50%. So, out of 4 lines we put, we have used two lines.
- Ayush Mittal:** And what would be our capacity utilization for rest of the company if we deduct this new expansion that we have done?
- Abhishek Mandawewala:** We have not worked that figure out, but the only way we can talk about this is going by individual business. The way to answer that question is to tell you what more can we do. It is, let say, two lines out of 12 in BCF as compared to last quarter about 20%-25% in Palghar and in the throughput improvement projects about 10% to 15% in Rakholi.
- Ayush Mittal:** I just missed the volume numbers for this quarter can you please repeat that and the export percentage?
- Himanshu Dhadha:** Yeah, so the volume numbers were 13,726 tons in Q4 and the export percentage is at around 32%.
- Ayush Mittal:** Do you also have any total capacity after this expansion stated capacity?
- Abhishek Mandawewala:** No, because the capacity is very much dependent on the denier and it keeps on changing. So, to give you any capacity number would be misleading.
- Moderator:** The next question is from the line of Rohit Poti from Marshmallow Capital. Please go ahead.

**Rohit Poti:** So, my first question is on the power cost. Given that, we have been impacted by it adversely for last many quarters, so I was wondering whether it might be a nice question, but is it feasible or sensible to have some sort of power generation capacity at our end for our plants?

**Abhishek Mandawewala:** We are in Silvassa and it is anyways on the lower side on the power cost. So, number one, I do not want to stretch our balance sheet any further and number two we will not explore this and I do not think there is going to be a meaningful payback.

**Rohit Poti:** The second question I have is based on the ratings update that came out recently? So the first question on that report is the dilution of equity, so I believe, last year you converted around 45 crores ICDs to equity and the rating report suggest that there is 24 crore more which we intend to convert in the coming financial year and on top of that I believe there are 33 crore of warrant outstanding. So, is the intent to dilute the equity by about 50 to 55 crore next year or do you not requiring so much of a dilution.

**Himanshu Dhadha:** No, it is not like that. Last year in March, we have announced almost 80 crores of equity infusion and it was in two tranches. One of that was 45 crores of preferential equity allotment which happened in the March itself, so there was no ICD conversion at that point of time. It was fresh equity which got in and the preferential shares were issued. Balance was in terms of warrants, which had the tenure of 18 months to exercise and that will end in September 19. So, the funds which was required to exercise the share warrant any which ways the promoter has infused those funds in the form of ICDs. So there will be no further infusion of funds but these ICDs will get convert into warrants. So, almost about 24 crores of funds which are in the form of ICD right now will get convert into equity. Hence, there is no further dilution as such and whatever has been announced in March 18 stays there.

**Rohit Poti:** So just to get a clarity, in the last concall you had mentioned that we will be reducing the debt by around 40-45 crores because that is the term, so next year, would we see the reduction in debt to be summation of around 40-45 crores that we are supposed to be coupled with and on top of that the ICDs also going away. So there will be material reduction of debt in the next results, right?

**Himanshu Dhadha:** Yes.

**Rohit Poti:** In the rating report again, it mentions that the company will reduce the net leverage to 2.5x in FY20 and between 1.5x to 2x in FY21, is this the rating agency projections or the internal target of the company as well?

**Himanshu Dhadha:** It is the rating agency projections, but we also have the similar kind of internal targets as there is no CAPEX expansion which is planned. Hence, all the incremental EBITDA which we will get, will actually be used in debt reduction.

**Rohit Poti:** And again the report indicated that tricolor lines will start contributing from the second half of FY20, so do you see that activity happens for sure in FY20 where you get enough customer and enough tricolor orders to fully utilize its line capacity or it is a tentative projection for the company?

**Abhishek Mandawewala:** It is very difficult to predict the exact date, but there are two points here. Number one, as I said in my commentary, there are large number of customers which are under development on the tricolor and there are one or two products that I am really excited about. So, hopefully we should be able to fill that capacity sooner rather than later. The other point is the tricolor lines in case for whatever reason even if we are not able to fill it, it is serviceable as a mono-color line also. So, tomorrow if we do not make tricolor, we can make mono-color in that same line. One way or the other, the idea is to fill the line as soon as possible.

**Rohit Poti:** Just a final question, this is basically a summation of the other stuff that I have asked. Over the next couple of years, the primary use of free cash flow would be to pay down debt and do you think at a certain leverage would you be open to considering a buyback if you reach the leverage that you are comfortable with?

**Abhishek Mandawewala:** So, we have not thought that far, but first we would like to get into the comfortable level of debt and then based on the opportunities that are present and on the stock price at that time, we will decide if it is a better opportunity to buyback or to invest in a project, but again it is too early as we are fairly couple of years away from that point.

**Moderator:** The next question is from the line of Pujit Aggarwal who is an Individual Investor. Please go ahead.

**Pujit Aggarwal:** I just wanted to understand from overall margin perspective. I mean the last couple of years has been bad, but at the end of the day like electricity cost at Rs. 5 or Rs. 4.5 is also an advantageous electricity cost I would say, comparing when I look at all the states in India and I compare the average electricity cost there, so I think 4.5 to Rs. 5 is like a very decent electricity cost. I would like to understand your reasoning behind that because at the end of the day as you said Palghar unit fall from the small percentage of your KW consumption, were you able to avail that Rs. 2 additional benefit that the government gave in Maharashtra?

**Abhishek Mandawewala:** So, from this quarter onwards, we will start getting that benefit of course as you know the power cost in Maharashtra is much higher than Rs. 5. The power cost in Rakholi is very close to 5 not 4.5. Also, we need to understand it in the context of what it was before. So, last year let us say our power cost in Rakholi was around 33.6 crores and this year ended even though our capacity was not fully utilized, it was about 45.4 crores. So, there is almost 1 crore per month addition in just extra consumption of or let say extra rate difference of power cost. So, that adjust to almost Rs. 3.5 crore per month. Even in Maharashtra, you would have noticed that the power cost has not come down but has only gone up. There were some open access

benefits that we were availing which have been discontinued, lot of regulation changes that has led to the power cost and power tariff going up. Overall even on the Maharashtra side, if you compare the third or fourth quarter of last year versus fourth quarter of this year, there is a meaningful difference in the power cost. So, needless to say, the advantage that I am having in the entire polyester industry is based in Silvassa and there is no meaning of competitive advantage and with respect to nylon, lot of players are there in Surat out of which couple of them have not much capacity in Silvassa, but major capacities in Surat and there the power cost to a certain extent compensates for the freight benefit. So, more or less we go back to the even when it comes to the advantage.

**Pujit Aggarwal:**

Basically, the gross margins are decent enough operating at 42% to 43% gross margin level is very good. I just wanted to understand your thoughts on the following thing going ahead like realization, utilization, efficiency and downgrades because at the end of the day, I am pretty sure your run sizes must be very small and it will be smallest in the optimal run size that is why you are getting on advantage that is why you are getting the EBITDA advantage, so I just wanted to understand your thoughts on how are you structuring your marketing to leverage on the following advantages?

**Abhishek Mandawewala:**

I do not think there is any rocket science whatever we are doing right now, we just need to do the same thing 15% more in all the three businesses and that should itself creates a meaningful operating leverage for us. I think even if we are able to fill up the capacities in all the three plants, we should be able to meaningful add to the bottom line. Needless to say, all the efforts that have been initiated in the last two to three years over a period of time, they will start to contribute meaningfully not only to the quality of the business but also to the margins, but immediately as of today we have this lever that is available in front of us and we must utilize it.

**Pujit Aggarwal:**

So like your main ideology is to fill up the line, ramp up the utilization currently and I just wanted to understand your thoughts regarding the lifecycle of a product for you. I am pretty sure like the lifecycle of the product must be very different in your nylon line as compared to your polyester line. I am actually mostly interested in understanding the life cycle of a product in BCF because at the end of the day as you mentioned like working in textile industry is like running on a treadmill and we got to keep on going?

**Abhishek Mandawewala:**

So, it is a good question. We have faced competition almost everywhere, the idea is to work with customers who value your quality, your service, your on-time delivery, and your commitment. If the customer is able to see that, then generally they will be willing to pay you little extra for that extra sleep of comfort, peaceful sleep at night that they get by working with a good quality supplier. Now, some of the new business that we are adding we do not have to incur any CAPEX. So, for example, the solution dyed nylon (SDN) business that we are doing, we are not incurring any additional CAPEX for doing this business and there are only three or four players in the world who are making this product. In the near foreseeable future, I do not

see any meaningful competition arising in this product. Even some of the polyester business that we have been doing in BCF, we have been doing this business for 6 years and I have been doing the same business with the same customers for the last let say 4 or 5 years without any meaningful disruptions. So, if you are able to work with the right customers and if you are able to service them in the right way with the right quality, consistency and on time delivery, I think it is a different market as compared to the regular competition.

**Pujit Aggarwal:** My last question regarding your depreciation and how exactly should I look like you have like around 40 odd crore depreciation, so do you think your depreciation actually reflects your maintenance CAPEX or is your maintenance CAPEX going to be lower per year going ahead?

**Abhishek Mandawewala:** As I said, our maintenance CAPEX will be closer to that 5 to 10 crores and not significantly more than that. Even the maintenance CAPEX that we do generally, we look at 1.5 year payback on any CAPEX that we are doing in which we call it operational CAPEX. So, for example, we will get new equipment which will replace our old equipment which is 25 years old, that will help us to bring down our leakages, the reduction in breaks and leakages itself will contribute to the paying back of that extra equipment. So, I do not think it is going to be more than 5 to 10 years. You can see just from the fact that there are several lines that we are running currently in the factory and which are producing high quality products and these are fully depreciated. The net book value of these lines are close to 0. In my opinion, out of the depreciation of 40 crores, the maintenance CAPEX is closer to let us say 5 to 10 crores.

**Pujit Aggarwal:** Just another question. I just wanted to understand for example most of your sales are being routed through for example in Australia through Godfrey or in Japan through Itochu International which is big retailer as well and a manufacturer himself. So, I just wanted to understand the kind of arrangement you are having like at the end of the day is there any Godfrey, because like he himself is a manufacturer of BCF?

**Abhishek Mandawewala:** Pujit unfortunately I cannot comment on individual customers on a concall.

**Moderator:** The next question is from the line of Rohit Balakrishnan from Vriddhi Capital. Please go ahead.

**Rohit Balakrishnan:** So Abhishek, you eluded to it in your answers to the earlier questions, but just wanted some more clarity. If I look at your gross margins of the last 8-10 quarters, it is being at the lowest. So I just wanted to get your sense and you also said that raw material prices have been more stable now, so is it like something specific that happens in terms of your product mix this time or just wanted some sense on that?

**Himanshu Dhadha:** So, from last one year if you will see the gross margins are more or less at the similar levels of 40% that is sales minus the raw material cost. So, it has been at the similar levels.

**Rohit Balakrishnan:** So, I think around 41% is what we have been doing and this is at the lower end. The reason for this question was earlier we were still going through some raw material problems. I mean we had some inventory losses, etc. Now, that we are also getting a better product mix and our CAPEX is also pretty much in line with BCF also being there and now raw material are also not being a problem area, I just wanted to get a sense that this is what you see as a normalized gross profit margin 40%-41% and also specifically in this quarter, was there any change in the product mix or any unanticipated changes or anything of that kind?

**Abhishek Mandawewala:** So, I will answer this in two parts. One is looking at the specific quarter, if you look at the specific quarter, there is significant increase in textile business that we have done as compared to Palghar as well as BCF. Now, in textile houses, the nylon business has the lower end of the margin cost. I do not have the exact numbers with me, Himanshu can share, but this quarter we did meaningful increase in sales in the textile space. The other thing that I would like to point is, as the share of better quality business increases it is needless to say the gross margin should improve assuming that the margins in the commodity business go down any further, but most importantly we have to look at even to the 40% in perspective and if you look at some of the other players who are operating, this 40% figure itself is meaningfully a better number as compared to many of our competitors with the exception of one or two of cost. Assuming that, if we are just able to improve our throughput in those three individual businesses that we are talking about, I think we can have a meaningful increase in profitability.

**Rohit Balakrishnan:** So on the other point which you just mentioned on throughput sorry for the repetition, can you again give your estimates what do you thought was the increase in throughput?

**Abhishek Mandawewala:** In textiles, I think we can do between 10% and 15% more. In Palghar, if you take the base of the last quarter, we can do almost 25% more, but if you take the average of let say the last year maybe 10% to 15% more and in BCF it is about 2 lines out of 12 which are currently remaining idle.

**Rohit Balakrishnan:** So, maybe this is my lack of understanding, but if you take broadly everywhere, you were saying about 10%-15% kind of growth in your throughput, so you expect that even if you do not see a massive change in the gross margins, these would lead to a substantial improvement in your overall better utilization of your fixed cost, and just with a 15% improvement, you see so much of change in the margins?

**Abhishek Mandawewala:** I do not know what so much for you is and what so much for me is, but I certainly see an improvement in margin let us just put it that way.

**Rohit Balakrishnan:** And just from a slightly longer term, we are around 10 crores of interest cost right now. I am sure some of that has been capitalized so that is why it has increased, is that a fair estimate that this is like the peak interest cost that we are looking at?

**Abhishek Mandawewala:** I think so Rohit. We have also had some expenses of about 10.25 odd crore. I think this should be more or less close to the peak that we have. The next quarter should be better than this.

**Rohit Balakrishnan:** On the dilution front, I mean what is your thought on warrants getting converted in the price at Rs. 80. So, just want to get your thoughts on that?

**Abhishek Mandawewala:** We are still 6 months away Rohit. So I will leave it at that.

**Rohit Balakrishnan:** And Himanshu what is the overall dilution based on your March 2018 announcement?

**Himanshu Dhadha:** So, it was almost 80 crores of infusion of the money which would lead to around say 7%. I will get back to you on the exact number.

**Rohit Balakrishnan:** And I have some specific questions in terms of your historical numbers. Himanshu, I will reach out to you for that separately.

**Moderator:** The next question is from the line of Dhwani Desai from Turtle Capital. Please go ahead.

**Dhwani Desai:** Two questions. I think what I infer from the commentary is that, we have a room to increase our throughput by around 15%-20% across different categories and we are at the end of the CAPEX cycle, so I want to understand that if you want to continue to grow at decent rate of 12% to 15%, would it logically lead us to do CAPEX in next 1.5-2 years again? I mean will we start that cycle again or am I missing something?

**Abhishek Mandawewala:** One thing is certainly in the next two years or let us say 1.5-2 years, there is no plan to do any meaningful CAPEX. My personal comfort level is let say 2 times. The debt should not peak out more than 2 times EBITDA and as you can see, we are a bit more than that. So, I do not want to commit any meaningful CAPEX until our balance sheet is stronger than what it is now. Needless to say, the lack of CAPEX over the next 1.5 years should meaningfully contribute result in contribution in reduction of the debt and at the same time I am hoping that our profitability should improve so that we should be leveled at close to 2 times EBITDA. I do not know at what point it will happen, but hopefully it will happen. Going forward we have to remember two things, number one is 10% increase in throughput is going to result in more than 10% increase in bottom line simply because now most of our cost are fixed, major changes that we had to do in the organizational structure is done, major CAPEX that we had to incur in building infra, lot of the stuff that we did which we had not done before, lot of that has already been done and it is already incurred, it is already a part of some of the cost that we are incurring. So, the element of operating leverage is going to be fairly high. The second point is that, needless to say, going forward the CAPEX will happen in areas where margin is the highest and where the sustainability of the business is the best. So, today whatever overall blended margins we have, if the margin is 8% at an EBITDA level, we might have some product which is let say 1% and have some product which is at 20%. The idea going forward will be to do CAPEX in the area

where the blended margins are the highest. So, to that extent, hopefully we would not need to have a 10% increase in top line, to have a 10% increase in bottom line or a 15% increase in top line for a 15% increase in bottom line.

**Dhwanil Desai:** Yeah I think my question was not with respect of the bottom line. I was just thinking that we are feeding so many new products and as they scale up and the customers we get traction with the customers, we will need to kind of put up CAPEX to meet their requirement and at that point of time, if our objective is to kind of more focus on balance sheet, how do we balance that in objective of meeting the growth as well as managing the balance sheet? I think we are coming from that perspective?

**Abhishek Mandawewala:** I understand. One of the factors is that currently, we are not filling up the capacity so we are not talking about product mix, but once the capacity is fully utilized then we will start looking at product mix also. So, for the customers that we add hopefully will be of a higher margins, we will start to replace the business of a lower margin as lot of our lines are interchangeable. Hopefully, we will be able to replace some of the lower margin business with a higher margin and in that way the idea will be to strengthen the bottom line. The other way to look at it is also how can we make this and this is also something that we thought about is. What are the areas which are least capital intensive where we can actually grow the business without incurring significant amount of CAPEX. So, there are some low hanging fruits which we will probably look at couple of years from now, but simply because right now we have enough levers that we do not need to invest in them, there are enough opportunities which do not require heavy CAPEX as what we have incurred in the last couple of years or three years, but still we can have a meaningful increase in profitability, add good quality customers as well as have that operating leverage of having higher volumes, Hence, it will be a mix of both.

**Moderator:** We have a last question which is from the line of Ankit Gupta from Bamboo Capital. Please go ahead.

**Ankit Gupta:** So Abhishek just wanted to understand one thing. Last year, we did CAPEX of around 129 crores. So, I think out of which, the Unit-VI was around 105 crores and the total CAPEX is around 1520 crores, so the kind of incremental revenue which are coming from the BCF lines, even after 50% capacity utilization, last quarter we had 15% volume growth on a Q-o-Q basis and on Y-o-Y basis we had 6% growth in volumes. Just wanted to understand at least from the number side, we have not seeing the kind of incremental revenue which should have come from the BCF facility even at half a capacity utilization?

**Abhishek Mandawewala:** I am not sure. So, I do not know what meaningful means, but we have had an increase in revenue, we do not give a breakup of our numbers, but we have had an increase in revenue because of BCF.



- Ankit Gupta:** Because we have also highlighted during the call that our last part of our volume increases or meaningful part for increase has come from the textile part, polyester and the nylon, so what I am trying to say, will it be possible for you to give the asset tons for this BCF plant which has come up at peak capacity utilization or 80%-90% capacity utilization?
- Abhishek Mandawewala:** Just one more factor you might have missed is that as I mentioned, the Palghar volumes are also down, so that is where it has got compensated.
- Ankit Gupta:** So any ballpark, was there around 20-25 % or was there a meaningful number?
- Abhishek Mandawewala:** I am sorry I did not get you what number are you talking about?
- Ankit Gupta:** The volumes in Palghar. Was it a meaningful de-growth in volume that we saw in Palghar during the quarter?
- Abhishek Mandawewala:** Again we do not share the exact numbers of individual business, but it was a reduction as compared to normal.
- Ankit Gupta:** So, if we talk about BCF original capacity, I think the BCF four new lines which have come up for the full year FY19, they would have operated at let say 20%-30% because even the new lines came up only in the second half of this year. So, next year there are additional utilization of two lines plus the full year the utilization of the existing two lines which have been fully utilized now?
- Himanshu Dhadha:** Yeah, it will gradually improve, but all that will not happen from April month.
- Ankit Gupta:** One last question. We have the margins in tricolor lines more than the mono-color lines. So, is this the reason we have entered in this tricolor line as well?
- Abhishek Mandawewala:** No, actually not all decisions are driven directly by whether the product has higher margin or lower margins. One of the driving factors of the tricolor color line was the fact that there are fewer tricolor lines in the world, fewer amount of high-quality competition in the world and fewer number of players who are making these kinds of products. So, to a certain extent you are differentiated. Needless to say, if you make the right product in the tricolor line, you should be able to get better margins than average. Like with any business, I have been saying this for the last three years that no business is good or bad because you are in that business. I know plenty of players in the BCF space who are having lower margins than our nylon business. Does that make BCF a good business or a bad business? So, it depends on what kind of application you choose, kind of customer you choose, kind of product you make, how unique is the product. Lot of factors going to decide whether the margin is higher or lower, we cannot automatically assume the tricolor is higher margin or lower margin product.

**Ankit Gupta:** But, you can certainly say that it is a high entry barrier business and it has greater sustainability than the other.

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

**Himanshu Dhadha:** Thank you very much everybody, thanks for attending the call.

**Abhishek Mandawewala:** Thank very much everybody. So, we had tough last two to three years, but hopefully very soon, we will be able to see light towards the end, thank you very much for attending our call.

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

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