AYM Syntex Limited
Conference Call
Q4 & YTD FY21 Results & Other Business Updates

May 17th, 2021

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

Moderator: Ladies and gentlemen, good day, and welcome to the AYM Syntex Limited Conference Call to discuss the financial results, earnings, and other business updates of the company for the quarter and year ended on 31st March 2021.

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

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

Before we begin, I would like to state that some of the statements made in today's discussion may be forward-looking in nature and may involve risks and uncertainties.

I would now like to hand the floor over to Mr. Himanshu Dhaddha for opening comments. Thank you, and over to you, sir.

Himanshu Dhaddha: Thank you. Good evening, everyone. I welcome you all to the conference call on our company's behalf. And thanks for attending the call and taking the time out. I wish and hope every one of you and your known are safe.

Let me begin this conference call with a very short update on the fourth quarter. AYM Syntex posted revenue from operations of Rs. 350 crores for the quarter ended 31st March 2021, which was the highest ever quarterly revenue achieved in the last 4 – 5 years, an increase of

19% over the previous quarter, and also an increase of 42% over the corresponding quarter last year.

The total revenue posted for the year FY 2021 is Rs. 947 crores, which is lower by Rs. 81 crores as compared to FY 2020. The same was primarily on account of loss of sales due to nationwide lockdown initiated during the first quarter of this year. However, the cash earned from the operations has been on the higher side as compared to last year. The operations of the company continued to show improvement in Q4 with the increase in demands across all segments and achieved even better than the pre-COVID levels. Increased RM prices have also further aided to increase in the sales volume.

Utilizations of the plant capacities have seen an improvement quarter-on-quarter in all parts of the business with an increase in utilization and efficiency levels over last year.

Margins improved in large part of the business on account of improved product mix and cost optimization initiatives that were undertaken during the year. The rise in raw material prices has also helped the margins in Q4. MORM at 47% has improved as compared to last year's 45% and is expected to gradually improve further.

In terms of tonnenage, we did almost 16,800 tonnenes in Q4, which in volumes terms was highest ever among last all quarters in past few years, surpassing our next best performance which was recorded in Q3 FY 21. Exports in the March quarter were at 38%. On a yearly basis, the exports have increased to 42% as compared to 39% last year.

Operating EBITDA for the quarter is at Rs. 42 crores which is 12% of NR as compared to Rs. 22 crores in last year same quarter, and around Rs. 36 crores in Q3 FY 2021. On the YTD basis, the total EBITDA for the current year for the company stood at around Rs. 94 crores as compared to Rs. 93 crores in the year FY 2020, an improvement in EBITDA in the value terms despite the reduction in sales.

Exports continue to drive profitability. MORM, made to stock business was also aided by rising raw metal prices in the second half of the business.

The EBITDA per tonne has also seen an improvement with almost Rs. 25,000 per tonne in Q4 as compared to Rs. 19,600 per tonne in the same quarter last year and around Rs. 22,000 in the last quarter.

Profit before tax stood at around Rs. 23 crores for the quarter ended March 2021 as compared to Rs. 17 crores in Q3 and Rs. 4 crores in Q4 of last year. On a YTD basis, profit before tax stood at around almost Rs. 17 crores as compared to Rs. 10 crores in last year.

The net debt figure stands at around Rs. 189 crores in March 2021 as compared to Rs. 232 crores in the last year March 2020. And 207 crores in Q3 of this year. Net debt-to-EBITDA has also improved and come down to 2 as compared to 2.1 last year.

The total cost debtors in the books have reduced to Rs. 100 crores as compared to Rs. 114 crores in FY 2020, despite the increase in sales in last quarter, on account of some favorable payment terms with our customers. Our debtors above 90 days stood at almost Rs. 2.6 crores as compared to Rs. 4.6 crores in Q4 of last year. Current ratios, excluding the term debt liabilities, have improved to 1.3 in March 21, as compared to 1.21 in March 2020.

There was some CAPEX incurred of around Rs. 20 crores during the year, which was partially on the routine plant improvement operational CAPEX and rest on some debottlenecking CAPEX to service the future demands. Going forward, CAPEX in similar lines is expected.

With this information, I am handing over to my colleague Mr. Abhishek, who will provide you some more business updates on Q4 and for the full year.

Abhishek Mandawewala: Thank you, Himanshu. Good afternoon, everyone. Hope everyone and their families are safe at home. Happy to announce that we have hit record profitability this quarter after having the best ever quarter in Q3. In general, I am pleased with the shape the business is starting to take and I am happy that some of the past initiatives have started to pay dividends. However, at the same time, I would like to caution everyone against extrapolating last quarter's results.

There were a few tailwinds that might or will not continue going forward. Nylon prices have been continuously increasing for the last six-odd months. Since we are always long raw material relative to customer order backlog, this results in an artificial improvement in profitability until prices stabilize. Demand for export and domestic was absolutely on steroids.

As we speak, while exports continue to be strong, domestic demand has been annihilated. Our domestic utilizations have been down about 60% or 70% since the end of April. And I don't think the situation is changing in the next few weeks. This is now a disruption worse than what we saw during GST and demonetization, and demand will get impacted in this ongoing quarter.

Unfortunately, a financial year without such drastic demand disruption continues to remain elusive for the fifth year in a row. That said, the business is heading in the right direction. Our outsourcing strategy for commodity products is continuing and we continue to build capabilities through better MIS and systems that manage this additional activity. Product development and commercialization are on steroids right now and will form a lion's share of future new product launches and a few of our customers as a result of the launch of several of our patent-pending products in the last couple of quarters.

We continue to develop and file new patents. Our operational excellence program is also in full swing. We had the opportunity to benchmark our key plant KPIs against the competition. And I am going to be brutally honest, it is a bittersweet feeling when I say that we are fairly behind. Bitter because our factory should be running far better than the level at which they are running and sweet because this presents us with a huge opportunity for some low-hanging fruit.

The good thing is that we already have a direction and action plan with the help of which we believe we can bridge this gap. As a result of these continuing initiatives, we can, one, significantly reduce our waste downgrade and leftover levels; two, improve the quality consistency of our products; and three, most importantly, there is a significant scope of production gain that we can achieve by improving speeds impacting directly on the bottom line without marginal cost or CAPEX.

Our throughput improvement initiatives are still on track. We started with a plan when we were running at around 60 tonnenes to 70 tonnenes per day in spinning. I am glad to say that we have touched as high as 90 tonnenes per day on a few days in March. I feel that we can increase this further with the initial initiatives that we have in the pipeline.

Our cost initiatives are also on track and we have begun to realize the impact of this on the profitability, particularly of the Palghar plant. We have also begun CAPEX, as Himanshu said, in a calibrated manner. We are mainly looking at shorter payback opportunities across the three businesses. We are strictly looking at investments where the overall margin profile of the business can improve from the current level and also they need to be strategic in nature. Or if they are neither of the two, then the payback has to be lesser than one and a half to two years.

We have several opportunities for CAPEX we would have ordinarily done but are deciding to outsource instead as it doesn't add to the capability to our organization, nor does it improve the level of our specialization. The idea is to keep climbing an upward slope of specialization through the CAPEX that we incur and outsource the rest.

To sum up, things, while a quarter or so may be impacted the business is definitely in better shape and form as compared to a year back or two years back. And with that, I would like to open up the floor for your questions.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. We have the first question from the line of Dhwanil Desai from Turtle Capital. Please go ahead.

Dhwanil Desai: Hope you guys are safe. And congratulations for a very good quarter. Abhishek, three questions. First one, you mentioned that there were some tailwinds on the nylon side, and the prices kept on growing up. But if I look at the gross margin, our gross margins are fairly stable even compared to last quarter. So, if you can throw a bit more light on that, whether that number was too significant or it's more of a smallish number in that sense.

Abhishek Mandawewala: So, I guess there must have been a little bit of a given take. So, while on nylon we have a tailwind, we have a little bit of a headwind on polyester. But certainly, there were some net benefits that have accrued to us as a result of this nylon price increase. Perhaps one of the reasons for the gross margin to remain the same, because of the throughput in initiatives we might have had slightly extra production of the regular commodity products. And that also might have led to, let's say, the gross margin remaining the same.

Dhwanil Desai: Got it. The second question is, if you can give some updates on the Palghar, how the initiatives on increasing the capital utilization in terms of the new products being marketed, is taking place? And how do you look at FY 2022 from Palghar perspective?

Abhishek Mandawewala: We have been struggling with Palghar for the last few years. And in the last couple of quarters, I have mentioned that I think the business is starting to see a turnaround. So, both in terms of the cost and sales front. So, I think on both the angles, even as a business I think we will do significantly better in 2021-2022 as compared to, let's say, I will not compare with 2020-2021 because that's an abnormal year, let's say as compared to 2019-2020. So, definitely, we should, hopefully, if everything goes according to plan, do better than what we had done in 2019-2020. So, on the cost side, a lot of the things have already happened, but a lot of the things are yet to happen. So, there are still a few initiatives that have not fructified, and those impacts are yet to be seen on the numbers.

And on the sales front also, I think there is some positivity and we have added a few new salespeople, inquiries have started to come in at a slightly better rate as compared to before. The new products which we had launched has slowed down because of the Lockdown in the last couple of quarters. But some of the teething issues that we had faced until as late as the last quarter, this quarter, we seem to have come out of some of those issues and we have a slightly better sense of quality and what needs to be done going forward. So, while the sales are not significant in these couple of new products that I had spoken about last time, Ecose and Silkenza, but I am hopeful that they will start picking up. Just like all the other products that we have launched, it's a two to four-year cycle, so even with Comfeel same thing had happened, when we launched in the first two years, there was only sampling, no commercialization, and then suddenly when the program started to come it started coming quite rapidly. So, I am hoping that the same thing happens with Ecose and Silkenza in Palghar. But overall, I think I am happy with the direction in which we are headed in Palghar.

Dhwanil Desai: And the last question is, so I think this quarter we clocked around Rs. 350 crores run rate. Now, we were in that Rs. 250 to Rs. 280 Crores range and we were always mentioning that we have some room to increase capacity by 15%, 20%. So, in terms of capacity, how do you look at it? Is Rs. 1,400 / 1,500 Crores sales possible without any major CAPEX? And if any CAPEX is required, will it be like a very significant one or a minor one, like Rs. 20 - 25 Crores number, if you can give some sense on that?

Abhishek Mandawewala: Okay. So, I am going to divide that question into two parts, one is the throughput and the other one is the CAPEX. So, on the first part, the throughput bit, we have done some benchmarking in the last few months. And we have found that there is room for us to improve on all parameters, including the speeds at which we are running our facility. This is something that is not dependent on the outside world, it is in our hands. And number two, there are still some old throughput improvement initiatives that are still not fructified, which are in the process of getting fructified & will hopefully help us to improve our throughput. So, as a combination of speed, as well as the throughput improvement initiatives, we still have a fairly long way to go, before we exhaust ourselves on improving the level of output that we are currently getting from the factory.

On the CAPEX bit, as I said in my opening remarks, we have two ways to look at it. One is that if you have a really lucrative opportunity, it might not be strategic, but if the payback would be, let's say, 1 to 1.5 year, in that case, we will definitely consider it. There might be some cost-saving initiative where you can get paid back very quickly or some debottlenecking where the investment will probably be equal to the amount of WIP that you will reduce as a result of making that investment. So, these kinds of investments, which are very short payback, and the other aspect is the strategic part. So, we don't want to invest anything where we are not improving the overall level of the company, eg:- improving margins, or the level of the specialization, or how unique I am in making the product as compared to how intense the competitive field is, what strengths do I have in that space. So, unless we are really moving up in some way or the other, we are not going to do that capital investment. So, in another way, as I have been saying the last two or three years, so instead of being more of the same, it needs to add something to our organization. And that's when we will consider the CAPEX and that's when it will add to the bottom-line. So, definitely as compared to before, our hurdle rate for making the investments is higher than what it was before. So, to that extend hopefully the capital intensity should come down.

Moderator: Thank you. We have the next question from the line of Ayush Mitta from Mittal Analytics. Please go ahead.

Ayush Mittal: Congratulations on a good performance. I wanted to understand two, three things. First, if I look at the other companies who are somewhat related to what AYM is doing, or even generally the textile sector companies, we are seeing that there has been a substantial increase in margins on a quarter-on-quarter basis as there has been a favorable RM increase and maybe inventory gains for most of the companies. While in our case, despite the growth in revenue, we are seeing the operating margins around 12%, which was just seen in Q3 what we did. So, can you help us to share, when you say that there have been maybe some inventory gains or something, so how can it be improved on the core business?

Abhishek Mandawewala: If we look at some of the other listed players who have announced their results, most of those players have focused more on the high volume commodity products, where there is no strategic relationship between the buyer and the seller in general. And its price-driven and commoditized in nature. So, what happened, in that case, is, most of the margins have come as a result of the improvement of the delta. So, the delta between the melt cost and the delta between their finished goods, so let's say the delta between the raw material and the finished good in most of those commodity players, that delta has expanded. And as a result of that expansion, the margins have come substantially higher as compared to before.

So, for example, we buy a lot of polyester POI for our Palghar plant. Now, if you look at pre-pandemic, the margin between the melt most cost and the finished POI used to be between Rs. 6 to Rs. 8 a kilo, which has gone to almost Rs. 20 - 22 a kilo in the month of March, which is now down to Rs. 4 or 5 a kilo as we speak currently. And it is arguable, but I believe that Rs. 20 to Rs. 22, that's not a sustainable price at which people are going to continue to sell POI. Okay, you might have six months, a year, or a two in a good scenario where you can earn these kinds of margins. But ultimately it's a commodity, and it's a balance between supply and demand. And as the supply picks up, with this kind of margins, definitely people are going to add capacity expansion that they are already hearing about the same, those margins will start coming down.

In our case, that proportion of the business is extremely small. So, the only part where we get that kind of benefit is the nylon part. And that over the last four or five years it has become smaller and smaller part of our company, not only in the top-line but also in the bottom-line. So, only in that part, we were able to get that delta that other people got across their entire product mix. Our profit, whatever profitability improvement we have seen is a result of the operating leverage, which has straight away flown down to the bottom line. So, there is a very limited impact of price on our profitability. Most of what we are selling, we have fixed contracts with the customers where there is a delta between the raw material and the finished good price. And whether there is a boom or fall, the delta remains mostly similar. And these are customers with whom we've been working for many years and they are more strategic in nature, and they are a fixed business kind of thing. It's not the kind of business where for a cent or two they will shift the project to a different supplier.

So, there you have a long-term kind of agreement, and you are not able to take advantage of these short-term demand-supply gaps that come up, which we are able to do in nylon, and neither do we want to be in that position. There are a lot of impacts on the cost that we have had in the last quarter on the negative side also, like freight and packing material where all the prices have gone up and we have tried to pass on as much as we could, but we are not always able to pass on 100%, except the raw material. So, I think that answers your question of why some of the other commodity players have had wonderful margins and our margins are the same.

Ayush Mittal: Sir, given what we are doing, and barring a quarter or two, the kinds of improvements that we have seen now, these should be sustainable for us from the longer-term perspective?

Abhishek Mandawewala: So, as I said, there are a couple of factors, one is a headwind & the other is a tailwind. So, the headwind is that the nylon margins, definitely they will come down. We are taking the advantage of raw materials where we have a three-month booking time, and we are selling the material on an immediate basis in the local market. So, we have three months of inventory and as the price goes up you are booking the material and consuming the material which is three months old, and at a much lower price, and you are selling the material today at today's price. So, that's the gain that you are incurring in nylon which you will not have going forward, assuming that the product price becomes stable. On the other side, you have got all these five or six levers that I mentioned to you in my opening remarks, which we believe hopefully should to a certain extent, offset. Now, which one will be higher and how long those five or six levers will take to play out, it's anybody's guess. But it's a balance between the two.

Ayush Mittal: Okay. Second, we are seeing that most of the textile companies, especially those who are dealing with export customers, and that is what you also said that you are seeing very good demand, while the domestic things are pretty innovative, understandably, given the situation in India. Are you able to convert your domestic capacity to export or do something to limit this impact? And also, many of these companies are getting very robust outlook from the foreign customers where they want to have more, are we seeing something that I am trying to do more on the footprint?

Abhishek Mandawewala: Yes, but unfortunately, it doesn't happen with a flip of a switch. So, these are long relationships. Again, we are not in a commodity business. And you can't just start a customer at the flip of a switch by reducing Rs. 5 or Rs. 2. So, it's a long duration time. I think when we started this journey in 2016-2017, we were at about 18%, 20% of exports. Today, I think we are between 45% and 55% exports, quarter-to-quarter. So, I think we made a good journey, and the pie will only increase hopefully going forward. But it's not a buttonne that you can just turn on or off, like some of the commodity players can. So, other players in the industry can just literally, decide that the domestic market is not there so let's sell more in Turkey, South America or Europe, we can get reduce the prices and can get more volumes, we can't do that.

Ayush Mittal: Third question is, if we look at the cash flow, we see that the company's generating robust operational cash flows. How do you plan to deploy them going forward now that the balance sheet is in a better shape?

Abhishek Mandawewala: We have adequate opportunities for investment. We need to make sure that we don't get carried away. The goal is to keep climbing like a pyramid towards the top, where we specialize more and more. So, today, what I am making as part of my product mix, what I call a commodity some other player might call a specialty, and maybe they are more efficient than me in making that product then I can easily outsource that product and he will probably make that same product cheaper than what I can make in my own factory. So, we don't want to make those kinds of products which we can easily make outside. And at the same time, we have plenty of opportunities for capital investment and even right now we are sitting on a lot of opportunities. We are trying to avoid as we don't want to go overboard and burden on the balance sheet, we want to make sure that we take it easy and we only invest in areas where the payback periods are also lesser, and they are strategic in nature. And the other aspect is, of course, debt. So, we have almost Rs. 190 crores of debt on the balance sheet, and there is always an opportunity to reduce that. So, I would say that this is the plan to use the capital going forward.

Ayush Mittal: What I meant, any numbers in your mind, like 50% will go towards debt repayment or 50% will go towards growth investing or something like that?

Abhishek Mandawewala: No, I think it's very dynamic in nature, and depending on how quickly products mature, stabilize, that line will be decided.

Moderator: Thank you very much. We have the next question from the line of Agastya Dave from CAO Capital. Please go ahead.

Agastya Dave: Thank you for the presentation, it was very well detailed. Congratulations on your excellent performance as well. Sir, just a few clarifications on the statements that you have made so far. One, I missed the line where you were talking about throughput going to 90 tonnenes per day for a few days in March. So, what was that in reference to?

Abhishek Mandawewala: So, that was a spinning throughput, I was just giving an example of how through our throughput improvement initiatives in FY 20 & 21, we have been able to take up the production without incurring any CAPEX.

Agastya Dave: Sir, on this spreads, from Rs. 25 a kg, how much have they corrected? So, I understand it is a temporary phase, given that domestic demand is particularly weak. But to what extent have they corrected?

Abhishek Mandawewala: Very hard to say. So, in our case, I think, it's less an impact of contribution, it is more an impact of not being able to sell enough. The absorption of Fixed Cost is lesser because our gross margins are higher than our competitors.

Agastya Dave: So, can I conclude that the gross margins are still holding up? It's just a question of operating deleverage?

Abhishek Mandawewala: Correct, generally that's what happens in our case.

Agastya Dave: Right. Sir, how were the channel inventory, given this sudden drastic decline in demand? Are there plenty of inventories or inventory restocking that will again happen post reopening?

Abhishek Mandawewala: Certainly, so whenever you have a period where 1, 1.5 months you don't sell anything, somewhere there is a pent-up demand which hopefully should come back strongly. So, we have seen that during demonetization, GST & also during the sharp volatility that we saw in oil price in 2018, then the first wave of COVID, and hopefully now even in the second wave of COVID we should hopefully see the same. If you have 1, 1.5 months your plant is shut, definitely be there is a pent-up demand which comes back strongly. And we are hoping that it will come back in our case also. When it comes is anybody's guess, but we are hoping that it will come back.

Moderator: We have the next question from the line of Jatin K. from Alpha Capital. Please go ahead.

Jatin K.: Congrats on a good set of numbers. Sir, my first question would be, you are talking that we are not into commodities, as in we have long-term contracts and that is why our Q-o-Q margin hasn't gone up. So, in case things fall, prices fall, do we expect current margins to hold up?

Abhishek Mandawewala: In general, if you see, the last five, seven years, on the gross margins there is not as much volatility in AYM as compared to other players. Certainly, it's not that 100% of our product mix is specialized, we have a percentage of our products, for example, nylon, where we are subject to the same volatility and movement in market supply demand as compared to the rest of the players. But in general, definitely, I feel that the gross margin volatility of our business will be far lesser than the other players.

Jatin K.: And any guidance you would like to give for the coming year on sales, margins, etc.?

Abhishek Mandawewala: No. As you know, we don't provide any forward-looking guidance.

Moderator: Thank you very much. We have the next question from the line of Ankit from Bamboo Capital. Please go ahead.

Ankit: Congratulations on a good set of numbers. Talking about the new product development and the production pipeline, you had mentioned that, it is working out quite well. So, can you tell us like what are our plans of launching a new product towards the next year or two? And do you see the scale of the timeline of these new products reducing from existing three, four years, for the products which were launched three, four years, let's say they have now reached a critical sales stage. Is it possible that that the timeline of the new product commercialization and scale-up reduces significantly from three, four years for this new product that we plan to launch?

Abhishek Mandawewala: Definitely there is a lead time that is involved in these activities. In 2016 when we started we had launched few products, now if you see, the volume of those products slowly steadily they are scaling up, whether it is Industrial Yarn, Wonderfeel, Comfeel or solution Dyed Nylon, a lot of these products which had negligible volumes when started in FY 16, today they are starting to form significant minority in the overall product mix. And the same way I think it will happen with the other products, slowly & steadily as they get launched, customers start taking them up and they put it in one of their programs, and then suddenly we will see a spike up. So, it's a time-consuming process. What I do know and one way that I can put it is, at this point, I feel that there are a far higher number of products, as well as the number of programs under development using our new products with our customers than at any point of time in the past as compared to before. So, certainly, that is a positive side. So, I can't quantify that by when these products will get commercialized. But all I can say is that we are already starting to form some small share of our business and hopefully going forward it will improve.

Ankit: Sure. And we have not been sharing the percentage contribution from commodity products and specialized products, do you plan to share this going forward or it will remain like that, you not sharing those numbers?

Abhishek Mandawewala: At the right time I will be happy to share. Right now, at this point in time, this is all the information that I can share.

Ankit: And on the operating margin front, in terms of sales this has been the best of quarters, and we did have some advantage on the nylon front. And decided that the operating margins have been around 12% and we have done all the efforts on scaling up this crystalized product and our gross margins have also been pretty steady around 40%, 45% over the past few quarters. So, over the next three, four years, when the percentage composition of specialized products overall typing top-line further increases, do you see a margin improving with some operating leverage or that is not possible in our business?

Abhishek Mandawewala: There is nothing which is not possible, as you get more output from the same factory, without capital expenditure, you are using the same utility cost, manpower & overheads, but you are able to produce more. One is that. And then the CAPEX that you do, you do it in areas where the overall margin is higher than the average margin of the company. So, certainly, the margins over a period of time can definitely go up. But it's not like the business of Unilever, where every quarter till the third decimal point, the margins are constant. So, it has its own ups and downs. But if you look at the long-term trajectory, starting from 2018, we were down to 6%, 6.5%. So, from 6% we have gone to 7% and now @ 12%. And maybe we will have a quarter or two, it will go up and down again, but the long-term trajectory, if you see it's in the positive direction.

Himanshu Dhaddha: Just to add, if you will see, quarter-on-quarter you might not see these movements, but if you see year-on-year, from last three to four years the gross margin has moved from 41%, 43% to around 47% or 48%. So, overall, direction-wise, I think it is moving on a improvement trend year-on-year.

Moderator: Thank you very much. We have the next question from the line of Mohit Balakishan, an individual investor. Please go ahead.

Mohit Balakishan: So, popular questions I think, both have been asked previously as well, but just wanted more clarity. So, just this point on operating leverage, just wanted to understand, I mean, we have had the best quarter in terms of top line, but our other expenses have also risen in almost a similar kind of regard proportionately. So, just want to understand, despite having a very strong top-line performance and also gross margin also being in a similar range that we would typically aspire to, what was the reason for, specifically this quarter I am asking and also going forward in that sense, why wouldn't operating leverage play out in a quarter like this if it was so strong?

Abhishek Mandawewala: First of all, I do think that operating leverage has played out. So, there is a certain element of improvement of profitability that has already happened, if you will compare with the previous quarters. Number two, if you look at pre-COVID, the average nylon raw material prices were somewhere close to $1,600. Today, that same raw material is roughly close to $2,400. So, while the delta in rupees remains the same, but the top-line has increased more than what would otherwise have increased, had the raw material prices remained the same. So, in effect, what we need to look at is more the volumes as opposed to the sale price, because the sale price is impacted by a very volatile, oil-based raw material price that fluctuates from quarter-to-quarter. And it's not right to look at the margins on an increased level of raw material and compare it with the margins of the pre-COVID era, where the price was almost 60% lower. So, generally, in our industry, the prices fluctuate. So, in my five to six years, I have seen that the prices of nylon have gone from $1,600 on the lower side to $2,600 on the higher side. And generally, at $2,500 to $2,600, everybody in the value chain is making money. So, the benzene, the caprolactam or chip players, everybody's making money. And on $1,600 very few people are making money, so it fluctuates between that levels. And right now, we are at the other end, and hopefully, the situation will reverse, and the prices will reduce, and as a result of that our turnover will reduce even though our volume won't. And to that extent, in terms of percentage-wise, you will be able to see a better EBITDA margin. But if you look at the absolute figures, I certainly feel that we have done better and some of the operating leverage has played out when the EBITDA has come to Rs. 42 crores.

Himanshu Dhaddha: Some more to it. So, when you are looking at your other expenses under Reg33, in that around 85% of the expenses is still linked to the production or sales, so these are variable. We have to keep that in mind because there are a lot of expenses like contract labour or packing cost or dyes and chemicals or power and fuel, freights and forwarding charges and all selling and distribution expenses like commission which are directly linked to Sales, so when sales increase all these expenses also increases. So, the other expense percentage which you see, 85% of that is actually directly linked to sales. And in this quarter, actually since the freight and forwarding expenses and packing costs and all have gone dramatically high, so to that extent has affected the % to revenue and that's the reason we are seeing that the overall other expenses, as a percentage of revenue remained the same.

Abhishek Mandawewala: Just to add, ours is not a business that you can track on a quarter-to-quarter basis. So, if you try to make sense of one quarter's results, there are a lot of variables and I think it's not the right way to look at, at least AYM Syntex. What needs to be looked at is trajectory we have made over two to five years, and that is the important thing that we need to look at and we are extremely happy from that perspective on the progress that we have made. And more importantly, we have so much ahead of us.

Mohit Balakishan: Sure. I think that's a point well taken. My only point was that, but you explained it well, I understand it. The second question was in terms of some tailwinds which were there in this water may not sustain. So, can you just expound on that as well a bit more? And just on the last point that you also made. So, I think our EBITDA per tonnene is the highest that I have seen, the numbers that I have at least for the last 12, 13 quarters I have in front of me. So, the current EBITDA per tonnene that we have, I mean, directionally, that you think is sustainable? I mean, I am not asking you the margins, but I am just trying to understand the quality of the EBITDA in terms of what we have achieved, as you mentioned, over the last three, four years of hard work that we have gone through, this kind of EBITDA our last quarter was I think, 22,000, this quarter was 25,000, I think what Himanshu said. So, just want to understand.

Abhishek Mandawewala: Again, taking one quarter's EBITDA, there are so many factors behind which this 25,000 figure has come, headwinds, tailwinds, all these IndAS accounting, there are some sales that get recognized, there are some sales that don't get recognized, you have got fluctuating raw material prices & dynamic market environment. So, to take that one finger and try to say whether EBITDA will be higher or lower, it's impossible. So, as I said earlier, what is important to see is that where were we three years back, maybe at 6% to 7%, where we are today. And there are several steps that we have taken in the last three years. And whether we have enough opportunities to continue to do that? Yes, but you might have a situation where you might have the next few quarters which are much lower than 12%, I am not saying it would be. But taking one-quarter results I don't think is representative. But definitely, I will say, on a longer-term basis there are enough levers for us to continue an upward trajectory, whether that is through our CAPEX, product mix improvement**,** cost rationalization, or throughput improvement initiatives. So, there are enough levers that we can use in order to improve the margins. Now, whether that 12%, how sustainable or it will become 13%, or it will come down to 10%, that only time will tell.

Moderator: Thank you very much. We have a next question from the line of Dhwanil Desai from Turtle Capital. Please go ahead.

Dhwanil Desai: Can you give some update on BCF side and whether on the Tri-Colour side any developments, new customers, what is happening, how is that shaping up?

Abhishek Mandawewala: Yes, so Tri-Colour is just one part of the new product development. And definitely, we are utilizing the Tri-Colour line to make Tri-Colour products much more compared to the previous quarter. So, this quarter, we've done some good business on Tri-Colour and I feel that we will continue to do so. We are working on some very interesting products on that Tri-Colour line.

And I am hopeful of getting a good response from the customers on those products. In general, product development activity is in full flow, and we have a good requirement of sampling requests from some of our customers on these new products. And I am hopeful that in the next year or two, at least some of them should be commercialized and see the light of day.

Dhwanil Desai: I mean, we have enough order inquiries and pipeline to run at decent capital utilization?

Abhishek Mandawewala: So, I was talking more about the new product commercialization. So, in terms of the new product, we have a fair amount of interest in what we have developed & projects under development. Now, a few of the projects that realized & few don't. The new products, the new inquiries, and the business development is a slightly different aspect, but they're too we have a good healthy pipeline of customers, again, it's a dynamic scenario and sometimes the scenario changes very quickly. Everybody knows that people staying at home, they are ordering more of goods as compared to going out to restaurants and travelling abroad. So, I think the demand for consumer products is more than what it would ordinarily be had the world not been in a pandemic. So, I feel that somewhere even the demand will moderate, but I think we have a healthy pipeline of new potential opportunities, I would not say new business, new potential opportunities that we hope to commercialize going forward.

Dhwanil Desai: And another, correct me if I am wrong, but I sense the slight change in tonnee in terms of on the CAPEX side, I mean, till I think a couple of quarters back our stand was that the first priority for us is to repay the debt. Now, I think it looks like that we may have to juggle between the two. So, can you throw some more light as to have something changed? Or if my assessment inaccurate?

Abhishek Mandawewala: it's a good observation, reading between the two lines. But at the same time, see, last year we have incurred only around Rs. 20-odd crores & the year before that also the same, and we have used the extra free cash flow in order to pay down the debt. That continues to remain our priority. But as and when new opportunities come up, and it meets our criteria for payback, level of specialization, the barriers to entry, the strategic importance, if it meets our criteria, definitely we would want to grow the business. The balance sheet is definitely the first priority. So, we don't want to play around with the balance sheet, we want to make sure that we have a healthy balance sheet. And as the cash flow also improves, which you can see as compared to the previous year and this year, certainly we have the ability to invest a slightly more amount in CAPEX, as compared to what we have done in past.

Dhwanil Desai: The only reason I am asking this question is that last time when we did a large CAPEX it took us three to five years to come back to normalcy, I mean, the balance sheet was stressed. So, in the next phase of growth we don't end up in the same situation. I mean, that's the only hope or expectation.

Abhishek Mandawewala: Very good point. I would like to mention last time what had happened is when we had incurred the large CAPEX, we had just begun the journey of transformation. A large part of our profitability was coming from nylon, and that literally vanished. And that is the reason why the numbers were not as good as what they could have been, or they should have been. But that was one of the large parts, why there was such a swing in profitability. Of course, going into this year, the share of profitability from nylon is significantly lesser as compared to what it was in FY 2016-17, when we embarked on the first string of CAPEX. That doesn't mean that we are going to go out of the way and invest some CAPEX which is beyond what our company's internal accruals are generating, But we will definitely calibrate and even our hurdle rate is much higher than what it was in 2016-2017. Had we been in 2016-2017, there were a lot of potential investments that we would have probably done. But because we have matured more as an organization, we are not making those CAPEX because we feel that there will be better opportunities to deploy that same amount of money with a better high, with a better return potential as compared to those opportunities. So, I think we have evolved as an organization and, hopefully, unless the scenario becomes something like what it was in March 2020, heavens are going to come to fall, hopefully, we will not be in that kind of situation again.

Moderator: Thank you very much. We have the next question from the line of Agastya Dave from CAO Capital. Please go ahead.

Agastya Dave: Thank you for the opportunity again. Sir, on the strategy side, over the last few quarters, and in fact years, you have been mentioning that we will be going up the value chain, and today again we have repeated that. So, can you quantify what exactly are you looking for here? I understand the payback part, but in terms of products specifically, what kind of products you are thinking of developing? And if you can't go into details there, can you describe what would be the impact on spreads you expect to see? And does every increase in spread comes with a disproportionate amount of CAPEX requirement?

Abhishek Mandawewala: Yes. So, first of all, I don't think I am in a position to quantify what a new product will contribute more than what it is, more than what we are getting. So it’s not possible to do that. Certainly, when we say we want to move up the value chain, if I have to put it in simple terms, let's say I am making a product today, and I am competing with 10 different companies, the new product that I want to launch or the specialization that I want to do, in that case, in sort of 10 companies I am hoping that I might compete with only one or two companies or maybe in some cases more companies. So, that is what I mean when I say specialization. To make the product mix more and more niche, as compared to what it is currently. Now, does it require a disproportionate CAPEX? Absolutely not. So, whatever products we have made, it's using the same equipment. We hope all the patents that we have filed has been filed using the same equipment, and we hope to continue to use the same equipment to continue to develop and commercialize these products.

Agastya Dave: Sir, how long is the development cycle of these new products, starting from conceptualization of the new products to commercializing and then also getting the clients to validate your technology, process and product and then finally achieving commercial sales, what's the timeline in that?

Abhishek Mandawewala: Yes. So, typically, it could be anywhere between three and five years. The most complex ideas can take up to five years. There are some projects that I had taken up in 2016 which has just got commercialized. So, it's been almost five years since we have been working on that product. There were a lot of things that we had to take care, secrecy, making sure that we take the trials in an area where we know that those trials will not get leaked out to competition, and complicated product mix, some minor changes in equipment which take their own sweet time. So, when you think of an idea, by the time it gets converted into a product, it generally takes at least one to two years & in some cases, it takes as long as five years. And then you got at least a year to two years by when you can show it to a customer, the customer shows interest, calls for a sample of a finished product, he sees the finished product and he orders. You send a bobbin of yarn, he will try it out on his central machine, then he will say, okay, I like it, please send me a creel load. You send a creel, you run it on his bulk machine, he will like it, he will take it off with his customer, maybe 50% of the time the customer will say, okay, it's a great product; 50% of the time his customer will say, no it's it doesn't add any value, so in that case, the product gets dropped. The time where it works then the customer orders and not for bulk commercial trial but for four or five creels. Then after that, he will probably convert it into a program. So, that exercise also could be anywhere not just one to two years, I would say, it could be anywhere between one to even three years. And in the meanwhile, sometimes a person in the company will change. So those kinds of situations do happen. Therefore, it's a very uncertain, long-winded, difficult process.

In general, I have noticed in my experience, when you are able to bring the cost down for a customer. For Eg, if you are offering a product at Rs. X, and you have developed a new product where by consuming your product he is able to bring his costs down, such kind of products get commercialized faster. Where you are trying to seek a premium, there it takes a little bit longer to get commercialized. So, where you are offering a property, you are offering something that other products are not offering and you are expecting him to pay a little bit more as compared to the product that is existing in the market, there it takes a little longer time to convince and commercialize the product as compared to the others.

Agastya Dave: Sir, are you targeting polymer properties through physical processes? Or are you targeting polymer at the chemical level? Are you going for different kinds of polymers or are you just giving it better physical properties through some additives, or some slightly different process?

Abhishek Mandawewala: So, I think polymer is not our business, we buy polymer. So, we are not doing anything with the polymer. We are using the same polymer and we are making products that are otherwise not available, though, as you said, the change of parameters of physical properties in some way or the other.

Agastya Dave: So, you are not actually tying up with the polymer guys in developing new polymers, it's just completely at your end?

Abhishek Mandawewala: Yes. So, of course, in the last three or four years, we have launched products where we have developed new polymers. Sorona as an example. While we don't have any significant volumes, that is definitely an example where we have taken a new polymer that nobody in India was using and put it into a new product that has not been seen before by an Indian company, it's been seen before otherwise. We have also used different polymers to make new products, but we don't play with the polymer. So, we don't tell our supplier that, okay, you put this in the polymer, and you make this different type of polymer. So, we are just buying what we already have.

Agastya Dave: Okay, got it. That's very, very helpful. And sir, finally, you mentioned that incrementally you are looking at opportunities where the payback is 1 to 1.5 years. So, that seems like a really attractive and really high level of benchmarking that you are doing. So, is it possible, cost-saving measures can have that, but those would be like on the margins, whether they are large, that would be my guess? But on this new value addition target that you have, or the outsourcing that you are doing, do any of those opportunities meet this 1, 1.5-year payback period benchmarks?

Abhishek Mandawewala: Definitely not. I don't think we are in a business where we can consistently incur CAPEX with 1, 1.5-year paybacks. If that was the case, our return on equity would be much better than what it is. This was said in the context of non-strategic investments. So, if they are investments which are non-strategic in nature, then they must have this kind of hurdle rate in order for us to make that capital investment. So, that was the context in which I said, So, I don't think it is possible to have that kind of hurdle rate.

Agastya Dave: Just one last question. Can you then indicate what kind of hurdle rates you are looking at when you are talking about newer products? And similarly, when you take an outsourcing decision, what kind of hurdle rate is that, on the value addition side there must be some hurdle, right, obviously. But on the outsourcing side, is it that low -value addition is there, lets outsource as I want to have a good relation with my customer. Is that the decision or there is some requirement decision you got there?

Abhishek Mandawewala: No, if somebody can make a product which I am making today, and you can make it cheaper than me, then I think it makes sense for me to buy that product from outside rather than make that product in my factory, I think that is the main criteria in doing outsourcing and increasing outsourcing.

Agastya Dave: And sir, for new products, what's your hurdle rate generally, ballpark?

Abhishek Mandawewala: We don't make any investment just for a new product. So, most of our new products are developed on our existing line, so I don't think the concept of a hurdle rate would be relevant in that sense.

Agastya Dave: Okay. Sir, thank you very much for answering my question. Sir, I would really appreciate if you could post the transcript of the call. Thank you very much.

Moderator: Thank you very much. As there are no further questions from the participants, I now hand the conference to Mr. Himanshu Dhaddha for closing comments.

Himanshu Dhaddha: Thanks everyone for taking your time and attending the call. Stay safe and stay healthy. Thank you very much.

Abhishek Mandawewala: Thank you, everyone. Have a good evening.

Moderator: Thank you very much. Ladies and gentlemen, that concludes this conference call. Thank you for joining us. And you may now disconnect your lines.

……………………………………….