Welspun Syntex Limited
Q2 FY16 Results & Other Business Updates Conference Call

November 2, 2015

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Welspun Syntex Conference Call to Discuss the Q2 FY16 Results and Other Business Updates. As a reminder, all participants lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. On behalf of Welspun Syntex, we have with us the key senior management including Mr. Abhishek Mandawewala -- Whole Time Director; Mr. B.A. Kale -- Executive Director and Mr. S M Khire – Director, Operations. I now hand the conference over to Mr. Abhishek Mandawewala. Over to you sir.

Abhishek Mandawewala: Good Afternoon, Everybody. I am Abhishek Mandawewala and I serve as a Whole Time Director for Welspun Syntex Limited. I would now like to take you through the Key Highlights and the Key Performance Parameters of the last quarter for the Company. We will start with the key Financial Highlights: So in the last quarter I am very pleased to inform you that our company has gone from CARE rating of 'BBB+' to a rating of 'A' Further, our EBITDA margin is now at an all-time high of about 12.7% and last quarter we have also achieved record profitability, record Operating EBITDA of Rs.26.2 crores.

I will now move to tell you a little bit about our Half Yearly Results and the comparison with the previous year. So for the first half of the year, our turnover was Rs.405 crores as compared to turnover of Rs.431 crores for the first half of the previous year. In terms of EBITDA we have done an EBITDA of Rs.51.2 crores as compared to previous year's first half EBITDA of Rs.45.8 crores and our profit before tax stands at about Rs.30.4 crores as compared to Rs.22.7 crores in the preceding half, and finally our profit after tax stands at Rs.24.6 crores as compared to Rs.22.7 crores in first half of the the previous year. Now, we have made a provision for Rs.5.9 crores of tax which is the reason why the same growth that has been reflected in the PBT has not been reflected in the PAT numbers.

I will now move to the comparison of the performance of this quarter and the comparison with previous quarter and also the same quarter in the last year. So this quarter, the sales that we have achieved is Rs.210 crores as compared to September '14 sales of Rs.225 crores, which is a degrowth of about 6.4% and had a growth of 8% as compared to the June-15 quarter at Rs.195 crores. In terms of EBITDA we have grown around 8% YoY, and at Rs.26.2 crores in Q2 FY16 as compared to Rs.24.3 crores in Q2 FY15. We have grown by about 5% as compared to Q1 FY16 where it stood at about Rs.24.9 crores. In terms of PBT, we have made a drastic jump of about 23% YoY, where our PBT stood at Rs.12.6 crores and in Q2 FY16 we stand at about Rs.15.6 crores, compared to Q1FY16 it is a 5% growth where our profit was Rs.14.8 crores. In terms of PAT we stand at Rs.12.8 crores, in Q2 FY16 as compared to Rs.12.6 crores in same quarter last year which is around 1% jump and in June '15 it was Rs.11.8 crores, which is a jump of around 8%..

In Terms of the Short Term Way Forward: Now, our company will focus on consolidating some of the CAPEX that we have been doing over the last couple of quarters. We have done an increase of about 75% in the capacities of BCF as compared to the Q1, and all of these capacities will be available for sales and for dispatch from Q3 onwards. Similarly, we are now under commissioning of extra Yarn Dyeing capacities which is operating in Palghar, and by the end of Q3 we should be ready with 50% more capacity as compared to what we had in Q2, and similarly we are in the process of now importing our Nylon Machinery wherein some Specialty Nylon segments we will be increasing our capacity by 40% by April 2016.

In Terms of Long-Term Way forward, we will be focusing on some other new opportunities like Performance Apparel and Industrial Yarn. These are all opportunities which are still under evaluation, we have not taken any concrete steps. We will also be focusing a lot more over the next 12 to 18-months on some of the operational improvements that we would like to achieve particularly in our Rakholi plant operations. And finally, product development initiatives are also on high priority for the management. We have about 6 or 7 products right now in the pipeline, some of which are very-very exciting opportunity all across our businesses, so whether it is BCF or Texturized, in all our operations we have some very interesting new product development initiatives and going forward even they will be driving the growth for the business.

The last subject that I want to touch upon is the change of name of the company. Perhaps you have read some of the disclosures by the company and we are now in the process we have filed for approval. We will be changing the name of the company very soon.

There is a new development. Again, most of you would have read about this in some of our disclosures -- Mr. Rajesh Mandawewala will now serve as Chairman of Welspun Syntex. And he will be owning a majority of the promoter stake of the company which is again subject to regulatory approval. But he will continue to remain as Managing Director and Co-Promoter of Welspun Group. Otherwise, this change has not led too much change on the ground, it is life as usual for most of the people within Welspun Syntex and operations continue as normal.

With that I would like to open the floor for any questions that any of our investors-friends might have.

Moderator: Thank you very much. We will now begin the Question-and-Answer Session. We will take the first question from the line of G Vivek from GS Investments. Please go ahead.

G. Vivek: Actually, Welspun is a very old listed company and used to be a very-very run-of-the-mill operations until recently. So just wanted to understand the reasons behind the turnaround, increase in margins and are these margins sustainable, any USP which we have vis-à-vis competition, because I recently started tracking the company, so if you do not mind, if you can just answer in detail about this?

B.A. Kale: I think the major turnaround has come through change in product mix and new initiatives that we have taken just like BCF. These are the main drivers.

Abhishek Mandawewala: Just adding to that, I would like to first begin by saying that in 2008 when we had the big financial meltdown, we had a change of management in the company and Mr. Kale and Mr. Khire have taken up senior positions in the company during that time and the effort has actually begun in 2008 itself in order to bring this transformation in the company. So, we have gone from continuously making losses or barely breaking even to a situation today where we are generating very-very healthy profits and healthy return ratios. And this is largely attributed as Mr. Kale said to some of the change in product mix, but also on a broader level the change in thinking that the turnover is less important and the profitability is more important. So, we have to a certain extent exited many of our unprofitable lines and we have converted them into profitable business and we continue to maintain the same approach even going forward. Any business where we see that we are not able to make good margins, we would like to change over that business to business where we can actually do a lot better. So the product development and new initiatives is going to be the backbone of this strategy going forward and the team that we have assembled in the company is more than capable in delivering that even going forward. So particularly Synthetic Textiles is the products even the new products they tend to mature very rapidly, the competition tends to come in. So we need to keep innovating and keep coming up with new products and new lines which can make new products, and that will help us to stay one step ahead of the competition.

G. Vivek: The margins have been a bit cyclical coming up and down. Are these margins sustainable?

B.A. Kale: Margins are sustainable as long as we can keep the product mix shuffling. Fortunately, we have so many new initiatives going and so many options that we will make sure that the margins are retained with shuffling of products.

G. Vivek: How is the opportunity size? And who are our competition – domestic companies or mostly from imports?

B.A. Kale: Actually, if you talk about competition in the segments that we are operating now and the initiatives that we have taken, practically, no competitor will be anywhere near us. If you look at the results and the performances of our present competitors you will know that many of them are actually not able to perform well, against that if you see our performance definitely we have an edge. So on the Nylon side particularly there is no other strong competitors that we have except for Century Enka, they are stalwart in this, but sorry to say we are more aggressive.

G. Vivek: Any Import threat from China or some other place?

S.M. Khire: There are certain imports from China which are there but then now there are antidumping duties to get placed, until 2017 we have anti-dumping duties introduced on Nylon in China and there is a some threat which we have is open factor which has been left Vietnam and our all association is working to ensure that they do not dump any goods in India. I will go back to your question and the sustainable margins. Our EBITDA from '12-13 was at 6.36% went to 10.37% in '14-15 and in the half year of '15-16 it is at 12.67%. So I think you will agree that we have learnt the art of not only sustaining but improving EBITDA.

G. Vivek: About the recent TPP agreement wherein India is not a signatory and Indian Textile companies are supposed to be at a big disadvantage vis-à-vis the nations who are participating in that. Where do we stand?

Abhishek Mandawewala: With regard to TPP, the companies who will get mostly impacted are the companies possibly who are exporting to the TPP countries like Vietnam. While we do have some imports to countries like Vietnam, but overall I think in the larger scheme of things it is a very-very negligible percentage, even today I think more than 75% to 80% of our business is coming from the Indian market and 20% is possibly coming from exports, but even there we are geographically quite diversified and it is not that we have a major dependence on US as a country, but we have taken a note of this new agreement, and we are making sure that we do not increase any of our risk further from here.

Moderator: Thank you. The next question is from the line of Dhaval Shah from Siddhesh Capital. Please go ahead.

Dhaval Shah: You said Speciality Nylon segment to increase the capacity. Can you elaborate on that what does it mean?

B.A. Kale: We do not want to give more details on Specialty Nylons because this is part of our product mix, we do not want to educate our competitors.

Dhaval Shah: So you would not even give anything on the application side?

B.A. Kale: Application is on the **Warp** Knitting side or it can be on the Fabrics which are Knitted Fabrics. There is a lot of growth happening today in India on this.

Dhaval Shah: You said Knitted Fabrics, which goes into making Garments?

B.A. Kale: Correct.

Dhaval Shah: So this will be Cotton and Nylon mix garment?

Abhishek Mandawewala: Maybe 100% Nylon, maybe mix with Polyester, something else, but it is a textile application.

Dhaval Shah: So the Garment which is made out of this, so your customer would be using this to make a garment for the export market or for the domestic consumption?

Abhishek Mandawewala: Both.

Dhaval Shah: On the margin side, year-on-year, our EBITDA margins expanded by 2-2.5%. Now, in this one thing is product mix. How much would you say because of the fall in crude also in this or it is totally because of the product mix?

S. M. Khire: It is largely due to product mix because whatever the crude falls, it results into raw material price fall also, we are required to pass it on, because it is very transparent business that we do with our end customers. So the equations and everything is very clear. So it is largely to do with the product mix which we have been constantly changing, this 2010 onwards we have been changing this mix and that is why it is resulting into improvement, it is helping us, no doubt about it, but it is helping us to say reduced interest cost and other things also, but otherwise it is largely to do with our product mix, our vision and…

Dhaval Shah: So when you say about product mix that would mean that and since you have a lot of inventory which is make to order, so this would mean that you have some sort of pricing power in this compared to a pure commodity player where you just have to pass on?

S.M. Khire: Yeah, correctly said by you.

Dhaval Shah: So that would mean if you keep on improving your product mix further, make it more rich, then your margins should we expect like maybe by year-end should be inching towards 13%?

S.M. Khire: It is not getting saturated, it is getting in fact matured.

B.A. Kale: With Abhishek in Syntex, the perspective is changing, the new perspective is coming which will help us in build on further.

Dhaval Shah: My question is for Mr. Abhishek. Since you have joined here as an M.D., from what I recollect that your vision is to take this company more towards the B2C from B2B player. So can you elaborate a little bit on that?

Abhishek Mandawewala: I would not put it exactly in the same way. It is not that we want to take this entire company to B2C. So there is a space for everything and there is a time for everything. I think the Synthetic Yarn business is very much largely a B2B business but there are some opportunities in relating area close by where we might have an opportunity to go closer to the customer. At this point in time, I think it is too early to comment on these opportunities because we are still evaluating. Actually, we have been working on these opportunities for the last one and a half years. Once we are closer to taking a final call as to what we want to do, maybe we can comment, but at this point I think it is too early to say anything.

Dhaval Shah: What is your CAPEX requirement for this year and the next year?

Abhishek Mandawewala: We have done about Rs.60 crores of CAPEX already in the last six months and the balance Rs.75 crores CAPEX is spending for the next about may be 6 to 9-months, but going forward we intend to consolidate our capacities. As I had mentioned in my opening remarks, we have increased our capacities drastically and going forward at least from the next couple of quarters, there is going to be impact of new capacities. So we want to now focus on the next apart from these Rs.75 crores which has already been planned before, we want to focus on consolidating and moving up the value chain and some of our new product development initiatives which do not require any new CAPEX. So maybe '16-17 we are going to start to bring down the CAPEX but Rs.75 crores is still pending for the next 6 to 9-months.

Dhaval Shah: So maybe no major gross block addition in FY17 then?

Abhishek Mandawewala: As of now we do not have any plans and internally we have consciously started talking in the same language and we have started to discuss now that we need to slow down over the last three to four years, I think we have done close to Rs.300 crores CAPEX and now is the time to start consolidating and start improving our margins even further from where we are. So particularly even on the operational front, there are a lot of opportunities which are yet to be exploited. There is scope for improving our factory operations and getting some juice out of there also. Keep expanding, then these opportunities become may be secondary and second priority. But, we want to now focus on those because they do not cost any money, and they are low hanging fruits which are there for us to be picked up if we just focus.

Dhaval Shah: So in that case your other expenses was around 25% of sales for this quarter compared to last year it was 22%. So, should I think that if you rationalize this number, then maybe for the full year it should be 22% kind of a thing and this is related to gross block which you have put in but you have not yet extracted the business out of that, is this the right way to look at it or 25% of the other expenses is the new norm for this?

S.M. Khire: 25% could be the new norm for this.

Moderator: Thank you. The next question is from the line of Nidhi Agarwal from Sharekhan. Please go ahead.

Nidhi Agarwal: I want to understand, what kind of revenue opportunity we can have from the new BCF facility and the margin profile expected from the same facility?

Abhishek Mandawewala: Ma'am, we refrain from giving the breakup of the figures, as you know this information is easily available to also our competitors, and we are the only people in this business and we do not want to give any kind of information regarding our production or our sales or our margins in this business. But overall, they are very healthy that is all I can say, and going forward we want to focus on this segment and this is a segment which is not a commodity segment, it takes a lot of effort to build new business in this area, but it is in a relative sense, it is profitable if you run it in a proper way. So, at this point in time that is all I can say.

Nidhi Agarwal: I really want to understand the growth potential from a new initiative that you are taking since last 3-4-years. So where the revenue can go and what kind of margin expansion further we can see in next 3-4-years?

S.M. Khire: As we discussed earlier, we are not focusing on the top line, we are focusing on the bottom line, our objective is very clear, so we are not much worried of the top line, our focus will be to improve our EBITDA percentages and hence the bottom line.

Nidhi Agarwal: CAPEX of Rs.75 crores, how we are going to finance it?

S.M. Khire: We have a clear understanding but one-third is coming from internal accruals and one-third is from the bank.

Nidhi Agarwal: So, is there any number like 25% of the sales can be coming in the next 3-4-years from the new initiatives that you are taking?

S.M. Khire: Yes, that is what I said in the previous question also that we imagine 25% coming.

Abhishek Mandawewala: 25% was regarding the other expenses which is completely unrelated. Again, we do not want to give any kind of guidance and confirm figure. All I can say is we are working for the long-term benefit of the company. Most of the initiatives that we are taking, most of the CAPEX that we are incurring is towards business that is going to give us sustained profits for a long-long time. Some of this business takes very long to materialize, for example, **the BCF** business, the seed was sown about five years back and whatever little we are earning today, it is after five years of effort. Most of our future initiatives will also be in the same direction where perhaps it is not so easy to start the business, but once you are in the business, it is also very difficult for the other people to get in.

Nidhi Agarwal: You are also converting this Polyester facility into Nylon and other specialized products. I think we were about to convert the rest 35%. So where does it gone now and what is the timeline for the rest of the facility?

B.A. Kale: Actually, the lines are flexible, they can make Nylon as well as Polyester both. So we are ready for both. As the market moves we can go in either direction.

Nidhi Agarwal: Any thought process on dividend now?

Abhishek Mandawewala: Next two to three years I do not think we have any plans but going forward maybe we can think about it, but I just want to give you my thought process with regard to dividend, I think it is a very tax inefficient method, there are other ways in which we can try and increase the shareholder value.

Nidhi Agarwal: This tax rate of full 33% from next year?

S.M. Khire: Next year.

Moderator: Thank you. The next question is from the line of Pritesh Chheda from Lucky Investments. Please go ahead.

Pritesh Chheda: Can you give some idea on the margin differential between BCF, Yarn Dyed and the Nylon Yarns or a range?

Abhishek Mandawewala: I am sorry sir, we are not in a position to comment on that. The way we present our numbers, we do not actually provide the breakup of our sales and margin profiles, we want to keep the information because this is such a new area, we do not want to provide any information to our competitors at this stage.

Pritesh Chheda: But, is it safe to assume that at least BCF margins would be higher than the Yarn Dyed, and Yarn Dyed would be higher than the Nylon, is that chronology correct or…?

Abhishek Mandawewala: So I would say the first statement the BCF is higher, that I would agree, but again there are various segments in Nylon, as we had said earlier, there are some Specialty segments, then there are also some Commodity segments. So depending on which segment we are operating, the Yarn Dyed margin could be higher or lower.

Pritesh Chheda: Some color on the CAPEX that we have invested and that we are planning to invest? This 73% increase in BCF capacity, what does it take up to?

Abhishek Mandawewala: I do not think that we have shared the numbers, but again I will say that it will help to add to the bottom line and it will help to improve the margins further.

Pritesh Chheda: What market share do we have in BCF at least you could…?

Abhishek Mandawewala: BCF is a global business for us, we have a very small presence in India, it is more of export market for us, but in the larger scheme of things we are a very-very small player as compared to the export houses and the companies which are based in US and Europe or Turkey etc., To answer to your question, I think in a different way, the potential for growth is very-very large.

Pritesh Chheda: So the 20% export contribution that we have in revenue bulk of that should be BCF-oriented?

Abhishek Mandawewala: I would say more than 50% of that would come from BCF.

Pritesh Chheda: In the Rs.135 crores of CAPEX that we have, Rs.60 crores which we have already done, and Rs.75 crores which we have lined up, at least you could share how much of that is to be invested in BCF or total CAPEX what kind of asset turns are possible?

Abhishek Mandawewala: We are investing in Nylon, we will be investing also in Yarn Dyeing capacity…

Pritesh Chheda: Which used to make BCF?

Abhishek Mandawewala: No, Yarn Dyeing is separate from BCF. So we have got Textile segment, we have got Yarn Dyeing segment, and then we have got the BCF segment.

Pritesh Chheda: So Yarn Dyed and Nylon are not interrelated with BCF, it is not a Nylon manufactured would then go into get to the …?

Abhishek Mandawewala: No, when I say nylon, it is mainly for the Textile application, BCF is for Carpet application and Yarn Dyed is again a different operation which is based in Palghar which is again a Textile application.

Pritesh Chheda: In that Rs.130 crores, is there any lopsided investment in any of it or it is …?

Abhishek Mandawewala: It is more or less a balanced investment. Regarding the Rs.75 crores I think some of it is in the Specialty Nylon, some of it will be in the Yarn Dyeing area, some of it will be to upgrade our Lab and finally some debottlenecking in the BCF areas also going to be carried out.

Pritesh Chheda: But we have already invested Rs.60 crores, right, and the BCF capacity which has increased by 75% is going to commence Q3. So at least chunk of Rs.60 crores would obviously be invested in BCF, right? Can you just give the asset turns possible on this capital expenditure?

Abhishek Mandawewala: We have not calculated it, but we would imagine that just back of the hand calculation it would be at least 1.75-2 times.

Pritesh Chheda: Of the Rs.60 crores or of the Rs.135 crores?

Abhishek Mandawewala: Total. Again, it depends on the crude prices, because you never know tomorrow what crude becomes and what polyester chips become and the nylon chips become. But, roughly at today's value I would say 1.75-2 times minimum.

Pritesh Chheda: When you look profitability in the business and the workings of the business, is it based on percentage margin number or it is based on certain value per Kg profitability? Both evaluations and the working of the business, obviously, both are inter-linked? So typically in Cotton Yarns we look at per Kg basis. So revenue number is not so much important. Is that the same way which works in these yarns or it is different?

B.A. Kale: Yeah, it works almost like the same way.

Pritesh Chheda: So largely your crude and crude-linked raw material will be a pass-through with a lag effect?

Abhishek Mandawewala: Correct.

Pritesh Chheda: Of this BCF capacity, the expanded one, how much time do you think you will take to hit the peak utilization – two years, three years, less than that?

B.A. Kale: Within Q4 we will be able to utilize the entire capacity.

Pritesh Chheda: So by Q4 you will be able to reach peak utilization of the expanded capacity?

Management: Yes.

Moderator: Thank you. The next question is from the line of Ayush Mittal from Mittal & Company. Please go ahead.

Ayush Mittal: One thing if we look at the numbers between 2010-2014 we see there was a consistent growth in revenues, at least 15-20% growth that we used to have year-on-year. Last 1-1.5-years, the growth have not been there or a bit of degrowth is there in sales. Can you take us through that?

S.M. Khire: It is what was actually was a pace of growth where the capacities were being fully utilized. Now, having reached an optimum stage, it would be difficult to grow further and plus we will have to achieve margin of reduction in the crude prices which has happened in the last 1.5-2-years because that has significantly dropped our selling price. And township from Polyester Nylon where production have been deliberately taken in such a level that it optimizes our return. So rather than focusing on the top line, we have gone therefore for the focusing on the margins.

Abhishek Mandawewala: Just to add to what Mr. Khire said, we are now focusing more on the bottom line. So even if you look at our monthly review presentation, we do not even talk about the top line there. So for example, we were outsourcing our some of the Polyester POY earlier and texturizing the material and then selling it to the market. But, we realize that the margins in those kind of businesses profits are not that high, in fact it is just consuming effort, but we are barely making any returns. So we have done away with those kinds of businesses and it has actually benefitted the company. Regarding the future, with all the increase in the capacity that is happening in this quarter and the next quarter and perhaps a little bit in the fourth quarter, I think we should again start to come down if the crude prices remain the same. Again, I think we should start to see the trend of increasing top line. But again I would like to reiterate that top line for us is not at all important, we are only focused on growing the bottom line.

Ayush Mittal: It also means that you must be seeing some volume growth over this period when the revenue growth was not there. Is that right?

Abhishek Mandawewala: So you can see over the last couple of years and even if you look at our last few quarters there is a continuous increase in the margins and our hope is to continue to do better on the EBITDA margins and to do away with some of our lower margin products and introduce some better products through our product development pipeline. So wherever possible we first try to see if there are any non-profitable products which we can replace by better margin products, and only if we do not have a choice to go in for a new machine, otherwise, we would rather replace some of the low margin products with the higher margin products then to unnecessarily expand capacity.

Ayush Mittal: What I notice from the numbers is that if we try to calculate the cost of raw materials as a percentage of sales, year-on-year, I can see that the raw material costs have fallen from 63% to about 53-54% odd, that is 1,000 basis points, while our margins have only increased 200 basis points during this period. Can you take us through this?

S.M. Khire: Everything cannot be straight away you can hunter production, develop something new and make a profitable product. It takes time because we have a tie up with the customers; we have made long-term arrangement with the customers. So every reduction in crude will not necessarily mean that it will straightaway reflect into percentage margin.

Ayush Mittal: If we look at the raw material cost as a percentage of sales, the reduction in raw material cost over last one year has been around 10% points while increase in margins have been around 2%, from 10-12%, while the raw material cost reduction has been from 63% to 54%?

S.M. Khire: That is what I was saying, we might have changed the product by itself. Now that does not mean straightaway 10% reduction of raw material will reflect into the products finally. We might have discontinued certain products, but ever product it is not possible to discontinue at one go, it will happen over a period.

Abhishek Mandawewala: The margin profile and the products have also changed, it is not the same product, maybe we were making 100 tonnes of Product-A but now we have converted the 100 tonnes of Product-A to Product-B where the margin profile is entirely different.

Moderator: Thank you. The next question is from the line of Viraj Mehta from Value Quest Capital. Please go ahead.

Viraj Mehta: If I look at the history of the company, except last couple of years, the company has always been low profitability both in terms of ROC as well as EBITDA margin. The change in last 1.5-years has coincided with the change also in the raw material prices. I know it is difficult but if you can just give a color in terms of what has been the change that we have done in terms of strategy and how much has been due to change in the raw material prices, so that would be very helpful?

B.A. Kale: Strategy wise as we have already discussed, we are focusing on product mix. So raw material changes they are in line with the sale prices. So that will not reflect. But, the main thing is about the strategy that how you choose between your segments, we are working on some Specialty segments which we do not want to give you all the details, but those are profitable segments, and that is how we will be able to retain the profitability.

Viraj Mehta: Would it be possible to give us the capacity of several segments so that we can better understand the company because currently we do not have any details?

Abhishek Mandawewala: At this point I think we cannot break up the individual segments. Broadly, I can say that BCF segment is a good segment for us, the Specialty Nylon segment is a good segment for us. In terms of return ratios, the conventional Dyeing is also contributing healthily to the profitability plus we have also some unique products which we are supplying to our sister concern Welspun India. Some of that leads to the profitability. Overall, I think the idea is that, every few years we want to sow a new seed and over a period of 4-5 years it blossoms into a tree. We were able to successfully do that with these two or three segments especially the Nylon Specialty segment and the BCF segment. Some of these initiatives were taken more than 4-5 years back and now they are starting to bear fruit. So, similarly, we will continue to invest in these initiatives so that we are not just dependent on only these segments, but as we go forward more and more new segments will start opening up, and as I had mentioned at the start of the discussion there are may be 4 or 5, 6 or 7 such areas which are simultaneously working on, and may be some of them will click into big businesses in the future.

Viraj Mehta: The current leverage for the company is slightly higher than 1:1 if I look at the September balance sheet assuming both the long-term and the short-term borrowings. In the future even post the CAPEX would this be in line as in the leverage would debt-to-equity be roughly same or would it increase?

Abhishek Mandawewala: As of September '15 our net debt position stands at Rs.180 crores which is about Rs.160 crores of term loan and we have got cash position also of Rs.20 crores and the rest of it is of course short term, working capital and buyer's credit and all that. Going forward as I mentioned we have plannned CAPEX of about Rs.75 crores over the next 6-9 months. But beyond that we have decided to now slow down. There are a lot of opportunities which we need to exploit without doing any CAPEX and we need to work hard in order to strengthen the capability of the organization going forward rather than increasing the capacity. So I would say that from '16-17 onwards we are going to start to become a little bit more prudent in utilizing debt and I would not be surprised, I do not mean to give any guidance, but I would not be surprised if on net level we start to even repay some of the debt. But again it depends on what opportunities come up at what time, but the internal thinking right now is that we want to start to reduce this level of debt. So, may be from here including the Rs.70-75 crores further CAPEX, may be our net debt level rises by about Rs.20-25 crores more, but starting from there hopefully it will start coming down in line with our thinking.

Viraj Mehta: In February of 2008, the promoter entity did huge capital infusion by converting debt into equity at a very low double-digit number. But going forward, should we as an investor expect any kind of equity dilution at all? My question is more forward-looking is that because we are already at around 70%. Do we foresee need of any equity side of the capital?

Abhishek Mandawewala: As of now we have no plans to raise any kind of equity, as I had mentioned we are adequately funded for this Rs.75 crores CAPEX and after that we do not have any big plans for carrying out any big CAPEX. So as of now we do not plan to raise any money through any kind of dilution or anything like that.

Viraj Mehta: As one of the participants from management mention that there are better ways to probably return capital to the minority and the majority shareholders. Post CAPEX requirement of the company reduces and we generate significantly huge amount of cash flows, can we expect distribution of the capital though not through dividend but possibly buyback or share reduction in any way possible, is that also on the thinking?

Abhishek Mandawewala: Absolutely, as a company we would prefer to use those kinds of routes rather than go through the dividend route because you have to pay the dividend tax and then again at a personal level it is taxed. But right now it is too early to comment on something like that because over the next couple of years or three years at least whatever our internal accruals are, to that extent I am sure that we will find many opportunities to invest that kind of cash in new projects. So, for the next couple of years or three years I do not think we have any such plan because if we are talking about buy backs, if we are talking about dividends, at this level of debt, we are almost at a net debt level of Rs.180 crores, our EBITDA if you look at first six months it is about Rs.51 crores. So I think before we start talking about all of these things our balance sheet needs to become a lot more leaner and at the same time as I mentioned there are some opportunities available also, if we would like to take up.

Viraj Mehta: At this stage, this is more about trying to understand the thinking of the management, rather than what exact decision do you take in near-term or in next couple of years, this is more on a strategy point of view. Last thing, I want to ask is at peak capacity post the expansion that you talked about next 9-months, what is the kind of the top line number or EBITDA number because we work more on EBITDA per tonne kind of business metrics, what is the kind of peak EBITDA we can achieve?

Abhishek Mandawewala: We have a policy of not to give any kind of firm guidance. But I can only tell you that all of these CAPEX has been very prudently thought over and more and more of the CAPEX is going towards higher margin segments and also towards segments where we do not have to worry about competition coming and flooding the market. So, it is a prudent decision, and I would say, it is only going to be accretive to the bottom line.

Viraj Mehta: So, currently, are we running at full capacity?

Abhishek Mandawewala: Yes, except our Texturising business, most of our business is running at full capacity.

Viraj Mehta: Around Rs.52 crores EBITDA for half year is kind of run rate you are doing and that is what you are saying is you are almost optimal capacity as of now before the expanded capacity, is that a correct statement to make?

Abhishek Mandawewala: You can say that. What that statement does not take into account for example is some of the new initiatives, the new product development initiatives that we have taken up, which might using the same capacity where we might be able to improve our margins, for example, some of our products are only contributing maybe 1-2% EBITDA or 3% EBITDA something like that. So there is a continuous endeavor that how do we get maybe 12% EBITDA or 15% EBITDA from that same manufacturing line.

Viraj Mehta: Incrementally this Rs.75 crores CAPEX will be at a much-much higher ROCE than what the entire Company runs at today?

Abhishek Mandawewala: So the way we are looking at the CAPEX is to see not just the immediate ROCE but also to see the sustainability of the profit. So there are some areas where for example, where our return ratios might be much higher, but we foresee that those are the segments where competition can start eroding the margin as soon as they start to see that we are doing very well. So, it is a mixture of not just ROCE but also the sustainability of the ROCE which is driving the decisions.

Moderator: Thank you. The next question is from the line of Sunny Agarwal from Emkay Global. Please go ahead.

Sunny Agarwal: My name is Sunny Agarwal. Actually, I want to know the market size of BCF globally as well as domestic. And is there any other application apart from Carpet for the same?

B.A. Kale: Large application for BCF is in the Carpet area and the global market is infinitely large for talking about our capacities right now. So the growth potential is much higher.

S. M. Khire: That gives you enough indication that you can say 2.5 million is the global size of the market.

Abhishek Mandawewala: That includes all segments -- Polypropylene, Nylon, Polyester and everything.

Sunny Agarwal: You cannot drill down to what is the size of BCF domestic and globally and what is the growth rate likely?

S.M. Khire: Practically it is a negligible size. Cannot be measured even in the second decimal.

B.A. Kale: But, our capability is to cater to domestic market as well as export market.

Sunny Agarwal: Who are the dominant global players in this BCF market?

B.A. Kale: Most of the global players if we talk about are captive users, but we differentiate ourselves of being BCF Yarn producers but we do not have our own captive consumption.

Moderator: Thank you. The next question is from the line of Dhwanil Shah from I-wealth Management. Please go ahead.

Dhwanil Shah: My question is regarding on BCF. Has the expanded capacity started to contribute in the second quarter or not yet?

S.M. Khire: Yeah, it has started from the Q2 partially.

Dhwanil Shah: I was just going through an article which says that Turkey is one of the largest markets in BCF which is having around 36% of market share and currency has come down a lot. So, do we think that is going to be a challenge for us to sell BCF because we are also exporting it. So how competitive now this is going to be for us?

B.A. Kale: You will be surprised that we have no stake in the Turkish market at the moment, we know that it is down. They are into commodity BCF but we are into Specialty BCF. So even without Turkey we can still do our business and grow it from here.

Dhwanil Shah: So as of now we are selling BCF to Turkey or no?

B.A. Kale: No, we are not selling because it is a commodity market. There is a possibility of turning this Turkish commodity BCF market into Specialty BCF market, and we are working on that.

Dhwanil Shah: But even those will be having all the three fungible and there is Polypropylene, Nylon and Polyester?

B.A. Kale: Very few of them have those flexible lines that you are talking about, but our experience with other polymers are much better than Turkish.

Dhwanil Shah: So for our BCF, which is the biggest market where we export on a larger front?

B.A. Kale: I think that we look at BCF as a global market, so whichever country has the better price and take better volumes we are in those markets.

Dhwanil Shah: Regarding our volume, as we said that we are not giving any segment wise. But overall on a companywide if you could give a volume now and after expansion how much would that volume come to, that would be very helpful in our analysis?

S.M. Khire: We have not calculated, maybe we will provide you separately after having it calculated.

Moderator: Thank you. The next question is from the line of **(Dwanil Desai)** from Tattva Capital. Please go ahead.

Dhwanil Desai: A couple of questions; one is that I was looking at our parent company or maybe an associate Welspun and they have been in the Carpet market and they have been manufacturing Carpet and their capacity around 15,000 tonnes, which they intend to increase to 20,000 tonnes. So, do we see an opportunity to supply to Welspun India, BCF primarily goes into the Carpet market and is there a likelihood that with the growth in the Welspun capacity of Carpet manufacturing BCF will also improve?

B.A. Kale: Yeah, Welspun India can be like any other customer for us. And apart from Welspun India we have other customers are also growing in BCF area. So we will benefit out of that.

Dhwanil Desai: So are we currently supplying BCF to Welspun India?

B.A. Kale: Yes we are supplying BCF to Welspun India at the moment.

Dhwanil Desai: How competitive is the global BCF Yarn market both on the Polyester side and Nylon side because as you mention there are many players who are completely vertically integrated who manufacture Carpet, who also manufacture BCF Yarn, but apart from that independent Yarn manufacture, BCF manufacture market how competitive is that?

B.A. Kale: Market is that way perfectly competitive, but we are into niche areas, we are into different Polymer, we are into different combinations, I would say the Carpet is known by the touch and feel. So we are working in these areas where it is little more innovative than the commodity BCF product.

Moderator: Thank you very much. As there are no further questions, I now hand the conference over to Mr. Abhishek Mandawewala for closing comments.

Abhishek Mandawewala: So I would just like to thank everybody for coming for this Conference Call and we look forward to your continued support.

Moderator: Thank you. Ladies and Gentlemen, on behalf of Welspun Syntex Limited, that does conclude this conference. Thank you for joining us and you may now disconnect your lines.