"Fineotex Chemical Limited Q2/H1FY17 Results Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to Finotex Chemical Limited Results Conference Call hosted by Systematix Shares & Stocks Limited. 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 touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Ankit Gor from Systematix Shares & Stocks. Thank you and over to you Sir!

Ankit Gor: Thank you Rohan. Good afternoon everybody. First of all I would like to thank the management of Fineotex Chemicals. Today we have Mr. Sanjay Tibrewala who is the Executive Director of the company, to present the Q2 FY2017 result highlights. I would like to handover call to Mr. Sanjay. Sanjay Sir over to you thanks you very much.

Sanjay Tibrewala: Good afternoon to all of you. Thanks for joining in for the Q2 2017 Earnings Conference Call hosted by Systematix. I would like to give you some background about Fineotex and its activities and then about the industry and then I will highlight about the performance of the last quarter.

Finotex is into manufacturing of specialty chemicals mainly for the textile industry. We have been into this business since 1979 and we have been manufacturing specialty chemicals then. We produce at the moment around 400 specialty chemicals for the entire processing of textiles right from per-treatment and dying, printing and finishing. Our manufacturing locations is New Bombay India and in Malaysia, and we have a combined capacity of 22,000 tonnes per year. We are doing a lot of export business and we have present through our agents and customers in almost 33 countries worldwide across even in Latin America and Paris and Europe and other countries so on and so forth. We have our export from India as well as Biotex which is our Malaysian company established. The textile industry is a very high entry barrier industry and the clients are very sticky. We are very much experienced in this industry and that is the reason we are able to provide them with customized products and also provide them with solutions, which are more important to them rather than our cost of the products.

Moderator: Ladies and gentlemen may I request you to stay contented, as the line for the management has got disconnected. Ladies and gentlemen kindly note we have the line for the management connected. Thank you and over to you Sir.

Sanjay Tibrewala: Sorry for this technical issue over here. I do not know where did we finish last, but I will just cover a few more things before I go ahead.

Like I was talking about our manufacturing facilities in India and Malaysia with a combined capacity of 22,000 tonnes a year, we are doing a lot exports to various countries across the globe and we have been doing it from Indian Fineotex and Malaysian Biotex as well. I would like to brief you about how this industry works.

The cost of the chemicals is 3% to the total cost of the textiles and which is again divided into various products like some pre-treatment, dying, printing, finishing and various functions, like almost 25 functions into it. So, the cost per product to the textile company is not high. This also makes them their hope to keep the customers. It is a very high entry barrier industry. This industry has been mainly dominated by European players like Clariant, which is now Archroma, Huntsman, Woodolf, CHT, Woolcra, and ICI Croda. These are the most famous European chemical companies, which are dominating the entire textile chemical businesses. We are a zero debt company with a consistent dividend payout. We have high capital efficiency. ROC and ROEs have high return ratio. I would like to take you through the financial highlights of the company that we posted yesterday.

Standalone Q2 financial year 2017, our total income grew by 12% Y-o-Y basis that is now 20 Crores. EBITDA for the year was 5.6 Crores which is almost 17% higher from the last year. The EBITDA margins continue to remain healthy and improved to 28.28% in the Q2 financial year 2017 increasing by 116 basis points as compared to Q2 financial year ending 2016. The net profit in the Q2 financial year 2017 is 3.8 Crores, Y-o-Y basis last year it was 3 Crores. This has resulted in our increase in the EPS by 0.34 paisa in this current quarter as compared to the earnings, which were 27 in the last quarter last year.

Standalone H1 financial year 2017, our total income has gone up by 10.6% Y-o-Y basis to 38.6 Crores. EBITDA for the year ended was 10.6 Crores which is 12.7% higher from the last year. EBITDA margins again continue to be healthy and it has improved to 27.5% increase in this Q2 increasing by 53 basis points as compared to the Q1 of the year 2016.

The net profit is in Q2 is 7.1 Crores as against Q2 financial year 2016 which was 6 Crores. This has also resulted in our increase in the EPS to 0.64 in the current quarter as compared to earnings of 0.53 in the last year Q2.

Coming to the consolidated numbers, consolidated Q2 in financial year 2017 our total income has gone Y-o-Y basis it is now 31 Crores. EBITDA for the year ended is 8.4 Crores which is 9% higher from the last year, EBITDA margin is around 27% as for the current consolidated Q2. The net profit has increased from 4.4 Crores of last year to 5.3 Crores in the current quarter which is a growth of 21% Y-on-Y basis. This has resulted in our increase of EPS, which is now 0.47 as compared to the earnings last year 0.39.

Coming to the consolidated half year of financial year 2017, our total income has gone up to 61 Crores which is around 5% to 6% increase. EBITDA has gone up by 11.3% coming to almost 15.7 Crores.

EBITDA margin stood at 26% approximately. Net profit has gone up by 20% Y-o-Y basis. This has resulted in our earnings increase in the EPS by of 0.86 as compared to the last year EPS of 0.72.

This growth in our financials is a reflection of a well-executed business strategy. We have been constantly focusing on high marginable setback and getting more businesses by the same setup of our top clients and the result of the same can also be reflected from our EBITDA percentage and margins and overall profitability. On our operation front, we will keep continuing to provide more solutions to the consumers, try to increase our products more with our existing customers as well as we are looking at many more geographies worldwide. We are constantly focusing on penetrating with more number of products with our newer distributors. We almost have 74 distributors in Indian market. We are extremely excited about our growth prospects. Also in Malaysia Biotex we have developed a product and for the last few months we have been very successful with it. It is a product, which kills the mosquitoes. It is an eco friendly nontoxic product and what this product does is it breaks the mosquito lifecycle. What I mean by that is, once it is put on, it is a silicon-based product. This product changes the surface tension of the water and as we know that larvae have to come up on the surface of the water to protect their breathing tubes and that time the surface tension of the water is changed because of which the water enters their breathing tubes. So although we are not poisoning the mosquitoes we change the surface tension of the water and the water gets into their breathing tubes because of which they cannot survive. For this product we have already got a lot of certifications we are working on launching it in India. We will discuss about this eventually in the coming days and things like that. So at the moment we are very happy with what we are doing and we look forward for your support. Thank you very much and now we can open the conference for any questions and answers to begin with.

Moderator: Thank you very much. We will now begin with the question and answer session. Anyone who wishes to ask a question may press "*" and "1" on their touchtone telephone. If you wish to remove yourself from the question queue you may press "*" and "2". Participants are requested to use handsets while asking a question. Ladies and gentlemen we will wait for a moment while the question queue assembles. We have our first question from the line of Pawan Kumar from Unifi Capital. Please go head.

Pawan Kumar: Sir first I wanted to understand what is this other income, why has it gone up and what does it constitute of exactly? Other income has gone up substantially in this particular quarter as against Q-on-Q and both Y-o-YEAR-OLD. I wanted to understand what are the components of the other income?

Sanjay Tibrewala: I can work on this answer and give it to you. I think it could be because we have providing for some dividends from our subsidiary companies. This would also be one of the reasons about it. As we had our finalization yesterday evening only, I am not exactly aware about this, but I can get back to you on this other income. Apart from that it is nothing because of any asset sale or nothing like that. I think perhaps it may be the dividend income or it could be some fixed deposits income or something like that.

Pawan Kumar: It is non-sustainable adjustable right?

Sanjay Tibrewala: I need to get back to you on this topic. If you can allow us sometime, our team will work on it and come back to you on this.

Pawan Kumar: Fine Sir. Another thing is the tax rate has dropped from 29% to 26% this quarter, so what is the tax rate we can expect for the entire year going forward?

Sanjay Tibrewala: Going forward, we cannot exactly determine how much will be the tax rate, but by and large we are always in the highest percentage of taxation because we do not have so much depreciation around. It is very close to 30% or something like that. There is no depreciation effect in which we can help our tax to release in that matter.

Pawan Kumar: In this quarter was there something extraordinary as the tax rate came down to 26%?

Sanjay Tibrewala: We are just noting all your questions Mr. Pawan and if you can just allow us sometime we will come back to you on this account exactly, we will be discussing with our accounts and everyone.

Pawan Kumar: Okay Sir. My last question before I join back in the queue. I wanted to understand what has been the volume growth Y-o-Y and what is the capacity utilization as of now?

Sanjay Tibrewala: Capacity utilization like as you might be knowing that we are having almost 400 products in our range and every product has its own production cycle, some production cycle is two hours and some are like more than 12 hours and 15 hours. It becomes difficult to exactly determine and also the demand of the product keeps changing in the sense sometimes the polyester orders are coming more in the market because of the trend and sometimes cotton. So the product also shuffles around. So at the moment generally we are always working on a capacity of 55% approximately. The volume growth Y-o-Y basis also we can work on that and come back to you on the answer. At least it should be around 5% to 8%; we can take it as a ballpark figure.

Moderator: Thank you. We have our next question from the line of Kishore Kumar from Karvy. Please go head.

Kishore Kumar: My question is related to the previous one only about volume growth. As you said about the volume growth, it would be 5% to 8%. Was it due to value degrowth? If we see the income statement in Q2 there was a flattish growth Q-on-Q basis if we exclude the other income and if we go with the Y-o-Y basis it will be a 6.6% of degrowth. So I just want some light on this.

Sanjay Tibrewala: What happens in our business is, we have products right from Rs.25 to Rs.900 a kilo. All the products are based on different kind of substrates, some are for Denim, some are for Knit, some are for Yarn, and some are for Polyester. Now there are certain products in which maybe the profitability is more value addition businesses and that was in more demand that time and that is the reason the volume is not necessary match to the percentage or the pricing or the turnover directly. It is not directly proportionate in that.

Kishore Kumar: How do you see business outlook after this demonetization, will it impact this business?

Sanjay Tibrewala: Most of our customers, I will just name a list of the top customers which we are working with is Chenab, JCT, Aradigm, Himatsingka, GHCL, Arvind, Reliance, Bhaskar, Morarjees, Raymonds, Malwa, Nahar Groups and all these ones. These companies are depending on something for the domestic market, but mainly it is more of export markets where they are catering to and in fact generally they do not have too much of a deviation in their purchases throughout the year, apart from sometimes in the European summer holidays that time they sometimes have some lower demand, but I do not see that should affect our organized market because we are working with only these kinds of corporate companies which are definitely one of the most India’s top textile companies and depending on the entire world markets getting to them. So I do not think this should be affecting as such, but again having said that there can be a couple of weeks slowdown because of the textile demand and then the consumers will not go and buy textiles at the moment and some companies are depending on the domestic market. It could affect but I do not think that is something, which is affecting our annualized financials.

Kishore Kumar: My next question related to the Capex. Is there any update on Capex as you said in the last con-call, you are planning 8 Crores to 10 Crores Capex for expanding manufacturing activities. Is there any update on this?

Sanjay Tibrewala: At the moment we have not yet done those kinds of Capex. If you could recall also we mentioned that we bought land parcels in Nawada and additional Ambernath in MIDC and the idea was that we will start commissioning that in staggering basis because in our business it is not necessary to have the entire investment in one group. We can do it in staggering in an installment basis you can call it, and at the same time you can start your activities, but that has also not been done right now because there is some paperwork at the MIDC level because of the change of some government out there, so that is not yet completed by them. Actually it was to be done by this month, but this month it looks very difficult for the government because of the current situations, so I think by next month we should have a clear idea about how and when can we start doing our investments in Ambernath for that matter. At the same time we have our continuous production increase like I can say a process which is ongoing now and I think in the couple of months we should be having some more addition to the production at the same locations where we are at the moment. Also we are looking at buying some assets, which are next to our plants at the moment in New Bombay that is also being considered.

Kishore Kumar: Can you tell me the asset turnover ratio of your business?

Sanjay Tibrewala: I think it is around 5 to 6 times.

Kishore Kumar: Thank you very much.

Moderator: Thank you. We have our next question from the line of Resha Haria from Green Edge Wealth Services. Please go head.

Resha Haria: Sir just in continuation of the previous participant's questions in terms of the capacity. Just wanted to understand our capacity utilization is at 55% for both the domestic as well as the subsidiary company?

Sanjay Tibrewala: Yes, more or less.

Resha Haria: And what is the optimum capacity utilization possible in this segment?

Sanjay Tibrewala: Actually we can easily go to 80% also and the point is we prefer to be at 55% because in case we get certain orders for products which have a higher production cycle we should be in a position to execute those products also, that is why are comfortable. Also if you notice our Capex requirement in this business is not so high, so it is not a great impact to our balance sheet wise while we are working on a lower predication capacity also. We always like to work with 55%, more or less. As soon as we reach higher levels we again add more capacities to it.

Resha Haria: Okay, because that was going to be my next question, we are already so far away from our optimum capacity utilization and yet we are planning to commission more plants at Nawada and Ambernath. Are there any specific orders that you have received earlier, anticipating that is why we have kept these capacities idle or is there some sort of an order book visibility which is there, which is making the capacity right now?

Sanjay Tibrewala: I can tell you the reason behind Ambernath and Nawada also because there is big space availability at a low rate cost also, whereas in Navi Mumbai the rates are already on a very high level that is one. Number two, it is not that we can have it in the same kind of reaction vessel, we have to have different kinds depending on the reaction, depending on the product raw material which we are using, so there are specific machineries and only on those machineries you can make those kinds of products. It is possible that for some products we may be having some spare capacity, but for some we are not having. So, when we add another thing it is always based on the product what kind of reaction we want to do and how much is the order for that and so we keep another capacity addition to it.

Resha Haria: And also secondly what are the steps that we are taking to prop up sales at our subsidiary company because if I look at this quarter's numbers our standalone top-line growth is roughly around 8% to 10%, but it is the subsidiary performance I believe which is pulling down our top-line growth. So any steps we are taking there to sort of prop up sales?

Sanjay Tibrewala: There are two things actually. As you know, in fact in the last one year, there have been so many fluctuations in the foreign currencies and things, quite a lot of the developments sometime get limited due to the exchange fluctuation, but having said that the focus in our independent European company Biotex is that they are working and focused on mainly bottom-line for that. Of course when the bottom-lines increase more the turnover also will increase, but their focus is more on looking at the bottom-line and that is the way the specialty industry moves generally. So, they are more focused on products which give them more profitability, more bottom-lines, and a lot of optimization of the cost has also been done at that side. At the end, yes, the bottom-lines are moving up over there. Top-lines because of some foreign exchange changes and some of the products, which were not so profitable that has also been less focused upon. Of course, it is just three months, before three months it was going up also. There are a lot of seasonal changes I mean in the sense they have Ramzan holidays and Eid holidays, and most of our customers are from the Chinese background, so for Chinese from February and March the business sometimes get lower that time. Again in September and October we can see a dip there due to Ramzan. Also the Ramzan instead of coming in October last year I guess it was in September sometime. The slowdown can be seen in Q2 in terms of the sales revenue.

Resha Haria: Sir if you would have the data point in terms of what has been the constant currency top-line growth in our subsidiary company for the last two, three odd years, like offhand ballpark if you have some numbers?

Sanjay Tibrewala: Yes, we can just work it out and come back to you on that. Maybe we have to rely on some of the data from there and we can submit it.

Resha Haria: Okay, and also just one more thing on the subsidiary, if you could elaborate how has the traction been in terms of client acquisition for the subsidiary and how our effort put in terms of getting in more specialty chemicals, you were mentioning in your opening remarks regarding one new product that you have developed, so if you can mention in terms of how exactly has the subsidiary performed in terms of acquiring new customers and more value-added chemicals, if you could just give some flavor on that?

Sanjay Tibrewala: Yes, sure. What happened in Malaysia like our Biotex Malaysia is having business in most of the Far East countries like Vietnam, Indonesia, Thailand, and most of the textile business is also coming to this region. There is a lot of pre-trade agreement with these countries, so whenever there is an importation from the customer it is on zero duty and there are a lot of textiles there, all kinds of textiles like from cotton, polyester, acrylic, yarns, towels, specialty functional textiles, technical textiles as we call it. So what happens in most of these corporate areas, we have a lot of solution-driven products? Most of the textile companies are not bothered about what is our product; they are more concerned how it is going to perform. Our business does not run on COA basis, it is not like a soda ash business or a die stub business where if you say it is a reactive black B, 100%, so everybody is black B 100% would be the same. Our products have more performance rather than it is not based on COA. Our customers are not even bothered sometimes to even us what is the base of this chemistry, what is it about, they are more concerned like this is my fabric, this is what I want, this is the machine and you bring your chemical and your guys and let us do the trials. It is more of a service oriented also. Like I said, textile is a very sticky kind of customers because their cost is only 3% to our total chemicals and that is also divided by 20%, 25% board functional lines. So let us say every product is not even 0.1% of their total requirement so even if you give them a cost reduction of 20% or 30% they do not care about it. In fact when we worked with Raymond, I can also see that they never come up even asking us for a price reduction. There is nothing called price reduction in our business nor they have bothered, even if they know that yes the prices are going down they are not even bothered about it because in fact they encourage us to bring some more value-addition products so that they can put it on their textiles and enhance their value of it. There was some cool finishes from Raymond launched in the past, there are some aroma finishes also which we have also submitted to them. They are in fact not bothered on how much margin, it is more they are bothered about the performance and one more important topic is that any changeover in over chemicals it has to be compactable with all the other chemicals because it is like all the five, seven products have to be used together. So in using four products from some different companies and one of Biotex and sometimes if they want to replace it they will always have to check that whether they can, if anything goes wrong with the other four, because everything is chemistry, if they do not understand chemistry then that is why they fear about it. Also because it is not so important and vital cost to them. Textile by and large is the very troubleshooting business. It is totally processing kind of a procedure in which water is always used and because water is used there are having a lot of reproductive issue. So by and large the textile customers they are very much we can call it like skeptical about any changeover. So the gestation period in our business is very, very high. If we start talking about one product now it can be almost a year by the time we can start it. One small example, we were trying to get into Welspun for the last two years and two weeks back only we got their first order. The first order itself means that now you are in it, so now from starting with one product then we have to keep waiting for the troubleshooting from their end and then we have to get an opportunity to troubleshoot it and that is the way we have to keep getting into from one product to two products to five products to ten products. This is the procedure to get into it.

Resha Haria: Sir I understand, but my question was more pertaining to the subsidiary's performance. If you could just elaborate on the journey of the subsidiary company? Was it always a specialty chemical company, if you could just elaborate on that and how has the customer acquisition been from their side and in terms of the technology?

Sanjay Tibrewala: I will just take you around, we acquired 60% in these five years back and that time the profitability of Biotex was not so much as it is now. The advantage is that most of our products were complemented by means of Finoetex and Biotex, so what we started doing is we started offering Finoetex products to Biotex customers and Biotex products to Finoetex customers. This is the way we could get a better product portfolio and better product offerings to the customers. Y-o-Y this is the way we have increased our number of products, we could increase our number of customers also and visibility also. What happens in our business is like you need to have the entire range of the products, pre-treatment, dying, printing, finishing. Now the consumer will not go to get another vendor for another product, so it is always required in our business to succeed that you should have the entire packages. In Malaysia, the growth is also happening because they sell the entire packages. If like in refinishing there are four chemicals to be used they will tell you that okay we will use all our chemicals, this is what will derive to you and what we will give it to you. This is the total cost of your textile which will come to you, not our cost of per kilo, but entire processing cost we give, they calculate your cost for that fabric per meter and then they give it as a package. Being from European front because as you know this is the European company, founded by European French technology and also run by our team as well as their team, that always has more penetration in the market because this industry was started by, most of our competitors are European chemical companies like the names which I told you CHT, Fulcrum, Archroma, BASF all are European companies. Most of the textile companies they value the European companies more and this is the way Biotex has been growing up further and further, I think they have almost doubled their profitability in the last three, four years from the time we entered into this. So going forward we are very excited about it. In fact, like I told you about the mosquito product also it is something which is a revolutionary product, it is nothing replacing somebody or something like that and eventually we are going to talk about it very soon in the coming days. We will get an exact idea about what is the product about. We have some presentations and video links also about it on YouTube. We will forward those links also to you if you would like to get an idea about it. So by and large Biotex is also debt-free company, it has its own cash reserves and the EBITDA margins are also very high. People worldwide love to work in Malaysia because the ports are functioning very well, the quality systems, and it is a more European company I should call it right now.

Resha Haria: Got it Sir, and just a last question I think we just recently entered Iran right, so how has that market been for us in Q2?

Sanjay Tibrewala: We just started with four companies right now; these are the big agents out there. The point is like as you know Iran is still getting some restrictions from the world, although it appears that everything is okay, but yet they have did not get specific numbers, so we consigned to them in Indian Rupees. By and large, we already started with four agents there. It is a very smooth country, it is very laid back country, things take a lot of time over there even the clearance takes one month in the docks, but going forward we are very much optimistic about Iran because of the sanctions that have been removed, eventually I think by January or February things will be much better than what it is today. Turkey is also diminishing now because of some issues happening in Turkey because of the security reasons and other things; a lot of orders are also being transferred to Iran. So, by and large we are happy that we entered at the right time and we are working with the four very big agents over there. In a month's time now, we have some visits also scheduled out there. So, Iran is there then Bangladesh also we had a good exhibition there one or two months back, and this has also been very, very successful. At the moment Bangladesh is also a very, very important textile garment company, around $35 billion exports that will become $50 billion in the next four years. So we are very optimistic about these countries.

Resha Haria: That is it from my side and I will write back to you for the few data points that I wanted. Thanks and all the best.

Moderator: Thank you. We have our next question from the line of Pawan Kumar from Unifi Capital. Please go head.

Pawan Kumar: Sir can you explain to us your growth prospects going forward, in the sense if you look at our Q2 results excluding the other income our EBITDA growth has been absolutely flat, most of the growth has in fact has come because of tax, so we wanted to understand what are the plans to grow at least the core business and what are the growth rates that we can expect going forward?

Sanjay Tibrewala: By and large, in the last four, five years also we had an average of 27% of our CAGR growth on an average. In most of the quarters, we have done by and large that much. Regarding the other incomes, we have already noted your query, we will come back to you on that topic regarding the other income and the taxation point which you have told about, but going forward we are very sure that at least what we have performed in the past that is something which we always want to achieve and that is definitely something which is realistically targetable.

Pawan Kumar: Have there been any particular challenges in particular quarter because I was just looking at the four EBITDA growth, so was there any particular challenges in this particular quarter which was not there in the last quarter or the previous year?

Sanjay Tibrewala: There is nothing really coming to the mind right now. Sometimes it is also possible that some of the products which are most profitable their demands might have gone down, we have not lost any customer, but maybe the demand has come down, but sometimes it is quiet, let us say seasonable also, seasonable in the sense maybe something which happened in October, so looking at that part also I do not think there is anything which is to be informed now, there is nothing so important about it, but yes, we are quite happy with the way it is going. Coming to your other income topic, this is something, which we have to come back to you and the taxation topic, which you mentioned about.

Pawan Kumar: So going forward what are our plans for new customer additions. Are we going by the industry growth rate or we will be exceeding the industry growth rate?

Sanjay Tibrewala: I can tell you in the last one year, we have increased a lot many agents all over; we have increased our manpower also. Now in India we have 74 agents. We have our guys with most of the textile hubs wherever it is. At the same time we have increased lot many corporate customers like I said about Welspun. Welspun is historic very, very important topic for us and we have been trying to enter this since last two years. We are almost on the verge of entering Trident, also Abhishek that is also very important customer where we have been focusing upon and there are a lot of changes in the management in Trident and that is the reason the things are getting delayed, but I think by this yearend we should be there in Trident also. Now, once you enter these customers it becomes very easy for us to grow more number of products and increase the number products to the same customers.

Pawan Kumar: Just one small question. I just wanted to understand how much time once the customer gets and does it take for us to actually ramp up some decent volumes from them? For example if I say some 100 metric tones, in terms of volume ramp up how does it happen, it takes two years or one year, how fast does it happen?

Sanjay Tibrewala: It depends on case-to-case. Now let us say for Vardaman. Vardaman Group we started with working with them in 2010 I think. At that time we were working with them, I think not more than Rs.10 lakh a year kind of a business and that was on one product, now we are supplying to all their nine plants right from Perundurai, Visakhapatnam, Budni, Ludhiana, Hoshiarpur, Bagdi and all their plants. Now they say we are the only company which is working in all their nine plants and we are doing at least around 8 to 10 Crores of business with them. This is something which depends on the requirements of the customer, how fast is their management also because generally textile is a laid back business and at the same time how much trouble they have, like parodying was into a big trouble in their processing so we were there for days and days and we could sort out their issues of processing, we could give them the right output of the fabric and the yarn which they desired, and once we do it then it is a direct business for us to start up. So it is very difficult to answer your question by giving you an objective answer because this is something, which depends case-to-case. It is not necessary how much time it will happen. Just for example, we started with Reliance two to three years back with one product of Rs.80000 a month around Rs.9 lakh a year and we could have sold this product instead Rs.80 product 1000 kilos, we could have sold it at Rs.130, Rs.140 also, because the other multinational supplier was supplying at Rs.160, but our aim was market penetration to get into the customer and start working with them. So, we brought our prices, we gave them a special discount, of course it is not under loss, we are still making profits on that Rs.80 also, but once we get into it, it took us one year to start the next product. When the next product started it went to a business of Rs.50 lakh per month which is 6 Crores a year and that is also the most important crucial profitable technical textile business. This is more of a marketing strategy that we have to be around the customer. The customer is more about a reliability and dependability. If any other companies take our same chemical and go to the customer, it will not work out because the consumers will never ever try to touch that chemical because of the problems which they will face if anything goes wrong, so it is the trust which we have. The trust can be developed only after we start doing the business with them, maybe a smaller one, but eventually it is also about our strategies, our targets, and how we take it up to the management and grow our businesses there, but once it started it is a big beginning that is what in our industry it has rated as.

Pawan Kumar: And can you name some director competitors of yours?

Sanjay Tibrewala: Acroma, formally known as Clariant, Croda which is formally ICI, Dungal, CHT, Woolcra earlier known as Henkel, BSF which is now merged in Acroma, Huntsman which is early as Taiba, these are the main guys. Mr. Pawan we will get back to you on other topics about other incomes and taxation.

Pawan Kumar: Fine Sir, I will get in touch with you.

Moderator: Thank you. We have our next question from the line of Giriraj Daga from KM Viceria. Please go head.

Giriraj Daga: My first question is related to volume growth, overall if I look at consolidated numbers, more or less the revenue size has been quite slow and what I understood was the revenue is largely coming from the change in mix where we are having a higher realization product, so what is the volume growth in the last three, four years what we have witnessed, if you have any ballpark number?

Sanjay Tibrewala: Yes, in the last four to five years the volume growth was always around 5% to 8% roughly and we can give you the details about it also. It is with Valorem also as well as our team can provide you with those details, but yes, as you rightly said it is basically because of the product mix changes. The mix change is also because of the demand changes, let us say when the polyester gets cheaper the market tends to use more polyester rather than cotton, so what will happen is then your polyester products will be sold more. The prices of all the products and the finishing products or pre-treatment products or dying products everything depends on substrate also and what kind of a product has been used by that customer, so it fluctuates. The best which we have is we have the entire range, so whether there is more increase in cotton or polyester or more demand for denims or something we are very much geared up, we have the best of customers in all the segments. Let us say for yarn we have Chenab, we have Wilsons and Aradigm. For suiting, we have Raymond, Sangam Spinners, Siyaram, Arvind and all those things. By and large we have the best of the customers. For best sheets, we have Himatsingka Textiles. Himatsingka we took two years to start the business, it just got started let us say from last December or January that was like nine, eight months back. By and large, we have the best customers and this is what the textiles people look at. If we go to Bhilwara, which is a polyester suiting market, they will just ask are you supplying to Raymond. This is way they start the topic because in this business nobody wants to be the trendsetter. They just want to be followers. They just want to follow the big names. So since we are already into the big names, your 80% of the work is done because they believe that yes this company is using your product, it has to have some big level of quality and things like that. So it becomes very easy to penetrate further.

Giriraj Daga: And what is the volume growth we are targeting for next two to three years?

Sanjay Tibrewala: Again, what is happening is there is lot of changes also what we have been doing in the marketing; let us say there are certain products where we are giving more concentrated products also. When we give more concentrated products that means instead if we are using one gram for one product we are giving you a product, which is 0.5 grams. Now when I give you a product of 0.5 grams you do not need for x kilos you will use half of it. So when you use half of it the volumes will decrease. These kinds of questions always keep coming and always I try to explain this in my way, because it is not exactly related that the volume increase and the turnover increase and the EBITDA increase or EBITDA percentage increase or PAT increase should always be in a match. There cannot be a correlation out there because of so many variables. Also there are certain number of products which we have launched, suppose you are using three chemicals, we are giving two chemicals for it. There is a change, which we are working onto now, so that is also being done. Again, you will not see that much volume growth because our company is not based on one product where we are making only soda ash or only alkali, so our volumes and our selling price will always be in correlation of our turnovers. It will never be that way. It will always be having its own shaping up as per the market trends and needs. What is more important and how we look at it is the bottom-line, it is more important especially even when we are in a specialty chemical I think that is something which is facilitating the chemicals on the specialty chemicals the bottom-line percentages. Now even keeping after 29%, 28% EBITDA almost all our customers know this much is the margin which we are enjoying and keeping, but at the same time they are happy about it. It is not a bargaining trend. Because they understand the value of our product when they use it on them, so it is something, which is a very different specialty zone where we are working into. It is very wrong to exactly make a correlation between the volume, the turnover, and the PAT thing, but I will still furnish you with these details. It is obviously important for you to know about these things, so we are opens and we have noted your topic and we will get back to you Mr. Daga.

Giriraj Daga: Sir one thing, I was looking at overall market, what I understood is that the overall textile market in India is about 1500 Crores is that the right number?

Sanjay Tibrewala: It is for the organized market, yes.

Giriraj Daga: What is the size of unorganized market?

Sanjay Tibrewala: The unorganized market is something which should be at least eight to ten times more than that, but again it does not a matter to us because that is the segment where we cannot walk into because they do not require those kinds of specialty chemicals and it is a very orthodox way of doing businesses and it is not a professional run zone, so we are not present in Bhiwandi. Those are the unorganized markets which are there and most of the things are being sold in the rural areas, let us say UP and some places in Bihar religious and all those things.

Giriraj Daga: So your addressable market is about 1500 Crores to put it that way?

Sanjay Tibrewala: Maybe in India it is so, but in the world it is almost $2.5 billion or something.

Giriraj Daga: And you are this time with Bangladesh also. In Bangladesh are there any large local players as competitors or again the European companies are the competitors?

Sanjay Tibrewala: In Bangladesh also these are the biggest guys who are the most famous names. Apart from that, there are people from a few countries, but that is always okay, it is not the domestic competition, which we have there.

Giriraj Daga: One question I have related to balance sheet, on a noncurrent investment, normally we have also investment in equity shares of various companies, so I just wanted to understand?

Sanjay Tibrewala: The noncurrent investment is actually what has happened is earlier it was into the current investment category, the debt funds instrument which we have.

Giriraj Daga: I am talking about you have various equity instrument, you have owned the share of other companies like Sun Pharma and all. The number is like to put together total amount is about 7 Crores, but it is still like normally as a listed company, the normal presence is always to the debt and the fund, so what is the thought process of investing in equity shares?

Sanjay Tibrewala: Like you rightly said the figure is very low for this and apart from this these are all A grade companies and it is for the better returns and also we have put it in the funds of almost all the best funds out there, right from that the debt funds and the balance funds which is there. By and large these are the safest parking things as well as we have the fixed deposits also.

Giriraj Daga: So in the mutual fund, I have the figure FY2016 March end only 27.7 Crores, do you have any equity investment also in that equity mutual fund?

Sanjay Tibrewala: Maybe a couple of them could be from that category also as per March 2016, but if you want us to give more details about it we can.

Giriraj Daga: One suggestion is that normally it is not a preferred idea for a listed company for investment in the equity shares.

Sanjay Tibrewala: I understand your topic, but at the same time we are also increasing our dividend also.

Giriraj Daga: We are okay with even fixed and lower returns, but we do not want that volatility of equity market that is the only idea, sometimes return even if we are earning normally the debt mutual fund let us say 8%, 9% also that will be okay, but it is not advisable, that is the only suggestion.

Sanjay Tibrewala: We are already working on that that is why we have already done a lot of debt funds listing instruments also and fixed deposits. Already that is one of the reasons why it is on so low levels. In fact earlier it was a little higher I think it got lower and lower and lower, so that process is going on. This is just for the idle cash, which is lying in the company. This is just to add some more income to the company's profit.

Giriraj Daga: I underrated the logic Sir, but that was the suggestion I wanted to make.

Moderator: Thank you. We have our next question from the line of Devang Vajani from Vajani Securities. Please go head.

Devang Vajani: Sir I have just one question, the divide between organized industries is 1500 Crores roughly and the balance is unorganized. Now, the GST will come and how will it impact the whole thing? How is your industry going to be per se? And second thing is regards to buyback. I think the buyback amount is around 4 Crores, our market cap is around 350 Crores plus, it is around 4 Crores of buyback so that is something which is in question because we have a lot of current investments in our hand also like around more than 50 Crores noncurrent investment, but the buyback amount is only 4 Crores, so it is more a question of capital allocation, those are the two main questions.

Sanjay Tibrewala: Thank you Mr. Vajani. The point is coming to the GST; it is going to be much better for us because the market and the business will be turning from the unorganized to the organized. That is the reason the big are becoming bigger let us say Himatsingka, Indo Count, Arvind, Vardaman, they are all increasing their capacity. For that matter these are our all top customers and they are getting bigger. Already they have lined up they are capacities also be need this new demand. We are very excited also about it because we see that if our customers are going to increase their production capacities and make more textiles automatically that will help us to increase our businesses that is one and that is something which we are looking forward to. Coming to the buyback, as you might have also known that the promoters also not participating in this buyback and this is the first buyback which we are doing in our company. At the same time we do not want to reduce the cash operations, the bank balances of the company to a great extent at the moment, so we have gone for deciding up to 4 Crores currently. Already the promoters are holding stake of 72% and they are also not participating in this buyback option. By and large, we understand your point. We are well aware about how much is the funds available and how much we can do it. At the same time, as we see also because of the change in the dividends and other policies and taxations, most of the companies are also not more keen on the dividend, but we are also looking forward for always having our dividend payments also, as well as this is the first time we have gone for this kind of a step in which we can increase the value for the shareholders. We already have that in mind that and eventually we should have bigger value buybacks and the better dividend payouts also.

Devang Vajani: My last question is relating to this unorganized industry, once this GST thing comes I think the gap between your price and their price will come down substantially that would be my understanding. Does it help us in expanding our markets of the organized segment because in all the other products it has happened like that, wherever the gap has reduced the organized players have actually taken over a lot of the market share from the unorganized and unorganized has almost got to very negligible share, will it happen even here in textiles also?

Sanjay Tibrewala: It looks like because in organized markets there are a lot of certifications and a level of excellent treatment policies and a lot of foreign customers are also very stringent about their rules and regulations of the organized company textile factory. By and large the more the GST is coming into picture, it is bound to happen that organized markets are definitely going to become bigger, maybe some of the unorganized companies will start getting organized, they will start getting into taxations and regulating their companies also. Let us see how it is, but overall it is positive for those organized textile companies, our customers as well as products, so we are very optimistic about it.

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

Sanjay Tibrewala: Thank you very much for being here. If you have any more queries, please feel free to let us know about it. You can contact our investor relation company, Valorem, or directly us also, it is fine. Thank you very much. Have a nice day. Thank you Systematix once again.

Moderator: On behalf of Systematix Shares and Stocks Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.