AYM Syntex Limited
Conference Call
Q1 FY21 Results & Other Business Updates

September 14th, 2020

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

Moderator: Ladies and gentlemen, good day and welcome to the AYM Syntex Limited Conference Call to discuss the Q1 FY21 Results Discussions and Other Business Updates. On behalf of AYM Syntex Limited, we have with us the key senior management including Mr. Abhishek Mandawewala – MD & CEO and Mr. Himanshu Dhaddha – CFO.

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

Before we begin, I would like to state that some of the statements made in today's discussion maybe forward looking in nature and may involve risks and uncertainties. I would now like to hand over the floor to Mr. Himanshu Dhaddha for opening comments. Thank you and over to you Sir.

Himanshu Dhaddha: Thank you. Good evening everybody. I welcome you all to the conference call on our company's behalf and thank you for taking the time to attend this call. Let me begin with a short update on the Q1 performance which is also in the public domain and updated on our website www.aymsyntex.com.

AYM Syntex posted the revenue from operations of Rs.91 crores for the quarter ended 30th June, which was down by 63% over last quarter, as well as Q1 FY20. The operations of the company got affected during the quarter on account of lockdown into COVID-19 and even post lockdown the demand remains muted in both domestic and international markets coupled with the cash flow crunch and supply chain disturbances as well as manpower related issues, especially owing to the migration of the workers on a large scale, which presented a challenging situation in Q1 FY21.

With the gradual phasing out of this lockdown, going forward the company expects to see the demand revival and expects normalcy to be achieved in next few months. Demand revival in strategic segments like BCF and IDY is showing positive signs towards normalcy faster than the other segments. As far as update on the operations of quarter is concerned, gradual improvement in the utilization of plant capacity was seen in month-on-month in all the parts of the business and especially strategic areas like BCF and IDY and also the increase in share of exports resulted in an improvement of gross contributions at the company level.

RM prices continued to be at subdued levels in Q1 FY21. However, the levels have stabilized in last few months now. In terms of tonnage, we did almost 5187 tonnes, which was lower as compared to all quarters in last few years on account of the obvious reasons. Exports as a percentage to NR has continued to rise and it was at almost 68% in Q1 as compared to 40% in last full year.

Operating EBITDA for the quarter was at negative 5.7 crores as compared to 24.2 crores in Q4 FY20 and 22 crores in the corresponding quarter last year. Profit after tax for the quarter ended June stood at negative 16 crores as compared to 8.9 crores and 1.8 crores in Q4 and Q1 respectively. Finance cost has reduced a little with the current quarter on account on lower operations and the working capital requirements. The net debt figure stands at 257 crores as in June 20 versus 232 crores in March 20. Company has availed the moratorium of term loans installments in the month of June under the RBI guidelines.

Debtors in the books also stands reduced at 68 crores as compared to the March figure of 114 crores and we hardly have now debtors more than 180 days which is almost as low as 2 crores now. Current ratio excluding the term liability portion stands at 1.18 crore similar to 1.2 of March and as far as CAPEX is concerned no major CAPEX in the current quarter apart from the minor plant improvement activities and maintenance CAPEX. The same strategy to continue for next 9-12 months also with only minor debottlenecking capex and operational capex to be only considered going forward.

Just to brief you on COVID scenario for the company, as I said the operations of the company got impacted in Q1 due to shutdown of both the plants, has now resumed operations in the phased manner from the April end and on the liquidity the company has taken steps to ensure adequacy of the financial resources. The company has availed the moratorium of loans allowed by the RBI guidelines and the existing bankers and traders in terms of the cash position, the company is comfortable as of now and the liquidity is available having unused credit lines and company also has the ability to borrow additional funds if required in the future. Steps have also been taken to optimize other costs and rationalization of employee cost by improving labor productivity or restructuring of the salaries, etc. The company continues to exercise control over variable and fixed cost to mitigate the adverse impact to the extent possible. With this information note, I'm handing over my mic to my colleague, Mr. Abhishek who can provide you more business updates for Q1. Over to you Abhishek.

Abhishek Mandawewala: Thank you Himanshu. Good afternoon, everybody. Welcome to the Q1 concall. The quarter gone by was one of the worst quarters in the decades old history of the business, as everyone is aware the lockdown went with zero sales and production for April with near negligible demand, the month of May too was extremely weak and things only started to pick up in June, that to in exports. For domestic sales, even the month of June was as good as a washout. In every sense the last quarter was a complete washout and on today's call, I will focus more on the next steps and on the coming time for the business.

I will start with POY Tex**.** Operations are now back to 90% to 95% normalcy out of 33 spinning lines only one remains idle and that too is expected to restart within the next few days. We are however facing the impact of several factors even in this quarter. Ours is not a business and product which can be switched on and off. We are an extremely customized plant with lots of tiny moving parts. Unlike many of our competitors, we have a lot of small lines as opposed to a few larger lines. A total shutdown and restart is an extremely cumbersome exercise. Restarting and stabilizing a nylon line is a process that takes at least 10 days. During this timeframe the line next process due to production of non-AAA quality goods. All lines have never been shut down together in the history of the business and it is practically not possible to start all of them at the same time.

While the exercise of starting up lines started in May, it is only now that they have all been started and the cumulative effects of this are likely to be felt until the end of September. The total shutdown and sudden startup of lines lead to our raw material procurement also going haywire at some of them long lead time items due to this uncertainty we were not sure as to how to calibrate purchases in the months of April, May & June. As we were already sitting on huge stockpiles. Our lines have to be frequently changed to allow for this. The availability of the right raw material for the right lines will finally be achieved from October onwards.

Finally, the lack of proper skilled manpower led to sub utilization, low efficiencies and poorer AAA quality percentage in the plant. In this department we seem to be getting to normal from September itself. As the Chinese economy went into lockdown in February, our business had taken a precautionary step of increasing the raw material stockpile across all items to plan for any possible supply disruptions. This has hurt us really badly as these higher value items continue to be endeavor now. Finished goods made from this high value raw material are likely to be consumed more than 90% to 95% by the end of September, hurting us even in the current quarter. The positive thing however, is that the plant is now fully operational and demand has resumed in exports as well as domestic, we do hear that the cotton value chain is operating at 50% utilization. So, while I'm not sure as to what is leading to higher utilizations on the synthetic side, but nonetheless the demand looks robust right now. Perhaps it was the low inventory across the value chain as well as the low ordering of less than 20% up to the month of June.

I have a feeling that while demand will remain robust until Diwali, after Diwali it might get subdued and we must prepare for that eventuality. Work on the throughput improvement initiatives have restarted after six months and we hope to complete the exercises over the next 9 to 12 months. While COVID made the progress low on some of our long term strategic product mix improvement initiatives. The lockdown has also given us time to reflect and create a short term tactical plan to modify the product mix to improve margins. The reason I call them tactical is because they can be executed with much higher speed. Many of these products have already been developed during the downtime available in the COVID months and have started to get commercialized as we speak.

Most of these tactical new products will be sold to our existing customers or to new customers through our existing channel partners and therefore the probability of execution of success is much higher than long term strategic initiatives where the entire sales value chain is being recreated.

On Palghar side, Palghar operations have been a huge positive surprise. The kind of turnaround achieved is something that I'm very happy about. The breakeven level of the plant is now down by 200 to 250 tonnes conclusively. This was achieved by improving right first time buying, reducing downgrades and wastage, bringing about significant improvement in labor productivity, rationalization of white collar staff and tremendous savings achieved in auxiliaries amongst others. Most of these savings seem to be sustainable.

As COVID restrictions lifts up, offices start again, travel resume, some of the overheads will again increase, but they will more than be offset by the savings projected through the above outlined initiatives. As we speak, Palghar achieved higher profitability than the average of the three months pre COVID, despite only 70% of the pre COVID utilization levels in the month of August. It is worthy to note here that pre COVID levels itself was 75% of the capacity utilized. On the sale side we are still a fair distance away from utilization of full capacities. We are expected to reach pre COVID utilization levels in September. Once we are through with the majority of these cost initiatives, focus will move back to increasing sales. Our exciting new flooring projects continue to garner interest but we are facing challenges.

Nonetheless, over the last six months, we have been able to solve many of the problems associated with this new product. The final bit of troubleshooting is expected to be complete this quarter and we can focus on growing volumes in these products. However, over the next year or two it is these products that will fill the gap of the weakened capacity. On BCF side, business continues to be robust, flooring is generally the sector to be least affected during recessions even as fast empirical evidence suggests. We have a slew of new product launches expected over the course of the next few months, we will be calibrating and tailoring some of these product launches to suit the brand positioning of our customers to enable us to create a deeper and more meaningful relationship with them as opposed to offering everything to everybody.

Here too we are working on some debottlenecking plans to help us grow volumes by at least 10% without meaningful CAPEX, which should meaningfully improve bottom line. Overall, the business was at the cusp of a magnificent turnaround before COVID hit us, it seems that this process has now been delayed by about 12 months. Nonetheless, the same very labor still exists and I believe we can meaningfully improve our margins and profitability. In fact, if anything the last six months have given us newer levers. I continue to believe that the profitability of the business can improve dramatically without incurring any meaningful CAPEX. More importantly, while the profitability of the business does not reflect it, the business transformation has been taking place over the last five years slowly but surely. Now, I hand over the floor to any questions that anybody has. Thank you.

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

Dhwanil Desai: Few questions from my side. First of all, I was going through your annual report and that was a positive tone saying that from H2 onwards, we should be back to pre COVID level. So, do you see any challenges in that as it stands today, so that is my first question.

Abhishek Mandawewala: We are largely back to pre COVID levels more or less and hopefully we should be able to maintain those pre COVID levels if not increase, again not withstanding any kind of change in scenario from here on. It’s very difficult to give forward guidance because, we have all seen in the last four years what kind of challenges the businesses has faced but, as of now it looks like we should continue to operate at this level.

Dhwanil Desai: Okay. And you just alluded to some kind of inventory loss or at least having high cost inventory and selling the finished product at a lower price. So, will that be a significant number, and will it get over by this quarter or will it continue for next few months if you can elaborate?

Abhishek Mandawewala: By September we should be done with it. So, September quarter, we will be done with all the losses that we will face on the inventory side.

Dhwanil Desai: That is more for the POY textile?

Abhishek Mandawewala: Correct majority of it will be on the POY tex.

Dhwanil Desai: Okay. And on a BCF side sir two questions one on BCF and another one on Palghar. So, BCF side in the last call you mentioned that the order flow where 80% of normal and for us to operate at more than 100% now we need to draw the floor to go back to normalcy of more than 100%. So, how do you see that situation on the BCF order flow size at least in next 3, 4, 6 months. What is the traction and what is the pipeline and any updates on tri color size, are we making any progress on that?

Abhishek Mandawewala: Yes Dhwanil, so, BCF order flow has gone back to 100% pre COVID 100% level, hopefully we should be able to maintain that tricolor line. It was actually in short supply in the last quarter. So, we got some business on that line and that line was fully utilized on the tri color product in the last quarter. So, hopefully even going forward, we'll be able to utilize it, but again whether it runs on tri color or mono color it's a flexible line, we can make either of the products.

Dhwanil Desai: Okay. And on Palghar this is largely a domestic market dependent business. So, we're still operating at 50% so, how do we think about increasing capacity utilization to pre COVID level of 70%, 75%, do you see that kind of a demand traction in domestic market, because I understand export is doing well but on the domestic side, we are still hearing that there are challenges in that market. So, do we see that happening in next two, three months or you think it's going to be a longer hold?

Abhishek Mandawewala: No, the Palghar will be a longer haul, entire business rethink is required and, I've been saying for the last one, one and a half year and we have been trying a lot of things but unfortunately, we have not found success with any of them. In the meanwhile, what has happened is the cost have come down so dramatically that we should be able to do even at the pre COVID levels, we should be able to do very, very healthy profitability. Now, everything above that will be actually a kicker. So in September month in Palghar we will be back to pre COVID level. I don't know by how much, whether we'll go back 10% or 5% or 7% or what will it be, usually September month turns out to be the best month of the year. So, take that with a pinch of salt, but September we are back to the pre COVID level. Now, we have to completely reimagine the Palghar business if we have to get to that 1500 tonne mark. So, the last one year we have been ignoring one segment or let's say we have not done much work in one segment where there are big volumes available, which is the flooring side. Now, the entire flooring team is actually involved in the Palghar business as much as they were involved in the BFC or the textile business and there are a lot of projects that we are now starting to discuss. In addition we had launched those two or three new products in Palghar which gained a lot of traction with in the consumers. But we face a lot of quality challenges in stabilizing that product and since the last one year we've been working. So let's say we have 10 problems to start with, we have solved five problems, five problems are yet remaining to be resolved. But, I am confident that within this quarter all those issues will get over and then those products also should add some volume. So, it will be a long haul it will be a slow and steady increase. But certainly if you ask me, let's say how optimistic am I about Palghar business and compare the optimism to let's say, February 2020. I am much more optimistic about Palghar than I was, let's say in 2020 February.

Moderator: Thank you. The next question is from the liner of Rohit Prakash from Marshmallow Capital. Please go ahead.

Rohit Prakash: Thank you for the opportunity. So, I've been following this company for the last few years and it has been a quite a difficult time since I believe, with multiple things happening to the industry. Where do you see the competitive intensity standing, because it's not just one cyclical downturn, there have been multiple idiosyncratic events which have impacted the industry from all sides. So how is the competitive intensity, do you see competitors shutting down or do you see them just surviving and being able to survive with reduced volumes as well?

Abhishek Mandawewala: Okay, so it's a complex question. So, I will have to answer it in parts. So, let us start the POY text business first. So, certainly there are companies which have become weaker after this lockdown, but on the nylon side our actual end competition is actually Chinese. Now, Chinese capacity of nylon is 30 times as much as India. So, just 3% of their total output is like Indian output. So, they have a reservoir which never ends, it's like a reservoir which whatever capacity gets weakened in India, it will be filled by the Chinese reservoir. So really, it has not made a difference in the nylon side. On Palghar we are yet to evaluate what is going to happen but there is a possibility because this industry, there are a lot of small and medium scale enterprises, small plants with 50 tonnes, 100 tonnes, 200 tonnes and I have been hearing that some of them have been facing a lot of challenges post COVID. So, whether or not we get relief, I am not sure but I know that there are some companies who are facing problems and on the BCF side our competition is more international and they are more high quality in nature, I doubt COVID will have much impact on the competitive intensity. So, that's how I would put it on the three businesses.

Rohit Prakash: Understood that was helpful. So, every business has a certain amount of bandwidth available be it management or be it financial, given from whatever I've understood over the last few concalls BCF is something where we seem to be enjoying a good amount of fundamental momentum. Even in this call, you mentioned that we've sort of reached 100% back to pre COVID levels, at least in the BCF segment. So, do you think it makes sense for the company and the management to reduce focus on nylon and put more focus on BCF to improve the quality of the business on an overall level. And this is also because if I remember correctly, you have substantially increased capacity in BCF and even increased capacity in a relatively short span of time. Despite all this disruption, we have gone back to our normal level?

Abhishek Mandawewala: Okay. So, when you say reduce focus you mean financial resources or human resources or time resource what is it that you're referring to when you talk about resources?

Rohit Prakash: So in general, I believe the idea is to move up the value chain and create a differentiated business with us becoming a very integral part of our customer supply chain and my understanding from whatever I've understood is that we've been able to do that better I believe in BCF and Palghar and the progress has been relatively slower in nylon, where as you alluded to we have huge competition as well and the differentiation as of now is a low. So, I'm referring to all the resources that you talked about. Do you think it makes more sense to concentrate more here and scale up more here or do you think that even nylon business despite the competition, there is enough potential to build a differentiated business there as well as at scale?

Abhishek Mandawewala: Okay. So let me see if I can answer that. So, in summary, I'll just say that if you ask me today, while there is a lot of potential in scaling up BCF, yes. But as of today, the way we stand, we can generate a far higher amount of incremental EBITDA from the Palghar and textile business as compared to the BCF business without incurring capital expenditure. So the Palghar as well as the textile business is not completely, operating to its full potential and it hasn't been operating to its full potential for several reasons, Palghar due to our own internal issues, which increasingly are starting to get sorted out and POY tex because of a very, bad and volatile operating environment. Let's put it that way so, there are a lot of things that can be done in these two businesses in order to significantly improve the profitability as compared to where it was earlier. So, I feel that in a scenario like this it is important to focus not just on the BCF but also on textile as well as Palghar. If we are able to improve profitability without incurring capital expenditure, it doesn't cost us anything. Also during the COVID a lot of new plans have been formulated, let's say I refer to them as tactical plans, they're much higher probability plans as compared to some other long term shifts that we are trying to make in the company and they can deliver results in the next let's say 12 to 18 months. So, I feel there is a lot of potential in both of these businesses, as opposed to just writing them off and you will see over the next 12 to 18 months that hopefully if we don't have another event like GST or COVID or demonetization or something like hopefully we will start.

Rohit Prakash: Thank you that was very helpful and my last question now is, over the last couple of years we have won quite a few, you have indicated in your conversation in the calls in the past that we won or we have been able to get initial orders with quite a few reputed international client in I believe industrial and sports, etc. So with this disruption do you see that, is that relationship still at the same level or have you been able to develop it further and become and had gone beyond the sampling stage etc. or have you been able to scale up the orders despite the disruption or does it require us to go back start from the scratch again because the end customers don't want to experiment with new supplies right now?

Abhishek Mandawewala: No, in fact the IDY business was always fully utilized even before the lockdown it was fully utilized and it continues to remain fully utilized, if you mentioned about industrial yarn that too is fully utilized. In fact, we are now talking about making some small modifications in our existing commodity lines in order to convert them to industrial yarns.

Rohit Prakash: Okay. So that was helpful. So, let me frame this better, but what I was trying to ask was we've initiated a few significant relationships over the last couple of years in different segments and you mentioned that we've begun supplying some amount of material to these new clients, I believe one or two were in Europe and I might be wrong, but you mentioned the US client as well. So just was curious to know if those relationships continue or do we, are we requiring too begin those from scratch again?

Abhishek Mandawewala: Okay, you're referring to the flooring not industrial yarn so, those businesses are very much on day. In fact, they have scaled up from the levels which we were operating before COVID.

Moderator: Thank you. Next question is from the line of Swaminathan an Individual Investor. Please go ahead.

Swaminathan: I just have one question. So, for the nylon business if the plan is to like discontinue it slowly or look for a divestment or what is the plan for the nylon business?

Abhishek Mandawewala: It is to continue it and to tweak the lines, to tweak the products in order to improve the profitability. I don't think it is practical to divest it or to discontinue it because it is still contributing something to the bottom line. As in it's a contribution positive business, it's not a contribution negative business.

Swaminathan: Okay. And you're just mentioned that the China is having some 30 times capacity. So now that the government is coming up with all these measures against Chinese these import duties and everything, is there something we can look forward to in this segment?

Abhishek Mandawewala: Unfortunately, the textile ministry has a different viewpoint. So the textile ministry is trying to encourage the garments. So in their quest to encourage the garments they are not encouraging, the anti-dumping duties on yarns. In fact, we had an anti-dumping duty case on nylon, which we received a recommendation from the commerce ministry to impose anti-dumping duties. And unfortunately what I hear is that, that has not been levied because I understand that the textile ministry is trying to promote the export of garments as opposed to protect the local yarn industry.

Swaminathan: So my last question is coming to the BCF segment. That segment seems to be going well for us, compared to these other segments where you said we can have cost efficiencies without CAPEX, what will be the growth drivers for BCF going forward?

Abhishek Mandawewala: Over there also we're working on a few debottlenecking initiatives, we'll be able to improve the throughput, through our productivity improvement initiatives and some minor some small CAPEX can help us to actually increase the throughput meaningfully. So we'll be focusing on that over the next 6 to 12 months. We can actually improve the throughput in next 12 months by at least, let's say 5% to 7% through the throughput improvement initiatives and another 10% at least by some small debottlenecking CAPEX, so next couple of years we can improve the volumes by at least 15%, 20% without spending too much money.

Moderator: Thank you. The next question is from the line of Dhwanil Desai from Turtle Capital. Please go ahead.

Moderator: Seems like we lost the connection for the current participant. As there are no further questions, I now hand the conference over to the management for closing comments.

Himanshu Dhaddha: Than you all for attending the call. Stay safe and stay healthy. Thank you very much

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