AYM Syntex Limited
Q3 FY20 Results and other Business Update Conference Call

February 11th, 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 Q3 FY20 results discussion 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 * and then 0 on your touchtone telephone. 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 the floor to Mr. Himanshu Dhaddha for opening comments. Over to you sir.

Himanshu Dhaddha: Thank you. Good afternoon, everybody. I welcome you all to the conference call on our company's behalf. Let us start with a short update on the third quarter results as well as YTD December performance which is also there in the public domain uploaded on our website.

AYM posted revenue from operations of Rs.264 crores for this quarter which grew by 8% over corresponding quarter last year and was more or less similar to Q2 FY20. On YTD basis, the company's revenue has grown by 7% on account of higher exports. BCF segment witness stability in the demand and increase in exports resulting into the improved gross contributions at the company level.

RM prices has further reduced in Q3, resulting in some stock losses. However, the prices have again picked up in the month of January.

In terms of tonnage, we did about 14,877 tonnes, which is marginally lower as compared to Q2 FY20, but it is more by 24% as compared to last year Q3. On YTD basis, sales in metric tonnes are higher at 43,500 tonnes as compared to 36,800 tonnes in last year. Exports as a percentage to NR is at all-time high at around 42% in Q3 FY20, which is highest in any quarter in last three years. On YTD basis exports have been at 38% share of the overall revenue.

Operating EBITDA for the quarter has improved and it is at 26 crore, which is 9.8% of NR as compared to 25 crore in Q2 FY20 and 20 crore in Q3 FY19. On YTD basis it stands at 73.5 crore as compared to 54.6 crore in YTD December 2018. This operating EBITDA numbers for the current quarter are among the highest in last 13 quarters, the EBITDA per ton has also improved to 17,500 per tonne on account of improved product mix and higher exports as compared to 16,500 tonnes in the last quarter and 16,600 per tonne in Q3 FY19.

Profit before tax and exceptions, for the quarter stood at 4.7 crore which is 1.8% of NR as compared to 3.7 crore in Q2 FY20. Interest cost has reduced in the current quarter on account of reduction of the term debt despite increase in working capital requirement on account of higher exports. Exceptional items during the quarter represent the settlement of indirect tax cases opted under Sabka Vishwas Dispute Resolution Scheme, the P&L impact on account of this is almost 4.5 crore. However, the cash outgo is only 1.1 crore. This has also led to a reduction of contingent liability by 12.7 crore.

Deferred tax gain, which you can see on the printed financials, is on account of the reversal of deferred tax liability, as it needs to be restated based on the revised rates under new tax regime, which the company will adopt in the future. Currently company continues to opt the old regime because of the carry forward MAT credit as well as unabsorbed depreciation in the books. The impact of the same has been carried out in the effective tax rate of the year.

The net debt figure has reduced and stands at 229 crore as on December 19 versus 258 crore in September 19. Net debt to EBITDA ratio has come down to three, with no major CAPEX in pipeline this is further expected to come down in the coming few quarters. The gross debtors in the book stands at around 129 crore a slight increase over September figure of 126 crore. This is largely an account of increase in exports.

Current ratio is maintained at 1.02 as against 1.05 in March 19. As far as update on CAPEX is concerned in the current quarter we have spent almost 6.9 crore on CAPEX that is largely related to CAPEX payments committed earlier, part of the same was financed through term loan. Largely we are done with our CAPEX cycle and no further major CAPEX is there in the pipeline. With this information note, I am handing over to my colleague Mr. Abhishek who can give you the business updates for the Q3 and YTD. Over to you Abhishek.

Abhishek Mandawewala: Good afternoon everybody. Very happy New Year to all. I'll start with the update of nylon and then polyester. There is good progress on operational improvement initiatives which I've been speaking from the last few quarters. Due to production cuts in the pre Diwali season and due to lower demand, the volume that we did in Q3 was not as high as Q2 as outlined earlier.

There was a sharp drop in prices in Q3 over Q2 for nylon. The impact of stock losses was felt the most in Q3. Nylon margins were low and were same as during the worst times in 2017 i.e. after the demonetization and GST period, despite this results of the company are good. Prices have picked up post that and margins in the coming quarter in nylon should be better.

Although it's not the highest, Polyester lines ran well due to exports this time, throughput improvement projects and minor debottlenecking continued as per plan. We hope to further increase our volumes without incurring CAPEX in the coming quarters. This will help us increase our margins since a large part of additional revenue will flow to the bottom line. Some major floorcovering customers were added in the Middle East as well as USA in this quarter, I had mentioned about this in the last quarter and we hope that their business will be ongoing. Some of these customers are large multibillion dollar conglomerates and we are very happy to add them to our kitty.

In terms of Palghar, the results were not the best, but we have seen that slow progress continues. We now have a good sales team, which was one of our weak areas over the last two or three quarters and one new person has already started delivering. The floorcovering segment is something that I was quite excited earlier, and I continue to remain excited about it. This quarter was the first time that we receive bulk orders for our innovative new products that we had launched, response in the exhibition in January was also overwhelming and few customers launch new products on the back of our yarn. Although, there are several hurdles to cross, I see these products contribute meaningfully to our top and bottom line going ahead. We have already recruited one salesman to focus on these products and are looking to recruit another. Over the next year or two I believe that it is these products that will help us ramp up volume significantly in Palghar and bring us back onto the path of growth. Bear in mind, we have surplus capacities is available in Palghar and in order to gain advantage of the increased volumes we will not have to incur significant CAPEX.

In BCF order positions continue to remain healthy, our entire focus has moved towards throughput optimization. We have broken almost all production records in the last quarter across processes as a result of some of the good work that was done in the plant. Some customers are now starting to see us as a strategic partner in their business and are looking to grow further volumes with us.

New product development activity continues with full force to ensure that the pipeline of new orders is always healthy. It's business as usual for now. In general, our results continue to get stronger with each passing quarter, at least so in the last 6 to 8 quarters, more importantly the foundation of our businesses is getting cemented more and more. We were thrown off course in 2017-18 during the demonetization and GST period, but we seem to be inching back up quarter-by-quarter. If we eliminate the impact of legal settlements, we are at an operational EBITDA of 26 crore, which is the fourth highest EBITDA this company has ever seen. More importantly, there is just so much more potential to unlock in Palghar as a result of filling up capacities, and in the textiles and BCF business as a result of producing more efficiently through minor debottlenecking.

All this is happening in the middle of a ridiculously bad macro environment as you all can see in India, as well as to a certain extent abroad. With a little bit of tailwind and work on the initiatives I outlined, I am sure our company results can look far better than what we're seeing today. Most importantly, while that happens, we continue to spend very minimally on CAPEX and pay down debt and improve the condition of our balance sheet. With that, I will hand the floor to any questions that anybody has.

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: So, two questions from my side. The first question is we have seen probably one of the best gross margins in last 10-12 quarters, and that is despite losses on the RM side that you mentioned. So, do we think that this kind of gross margins are maintainable with our product mix and bouncing back of Nylon?

Abhishek Mandawewala: I certainly hope so, because textile margins are fairly volatile they were at the lower end of the cycle. So, hopefully when that comes back to a neutral level, we'll be able to maintain these margins, actually we'll be able to do slightly better. I don't like to make any forward looking statements but, there are always uncertainties in our business as you have seen before. Also, there are a lot of unexplored or untapped potential opportunities in all three of our businesses, which we can tap in order to improve the margins.

Dhwanil Desai: Sure, thanks. So can you give me some idea Himanshu about what would be the inventory loss that you would have in incurred in this?

Himanshu Dhaddha: We have not calculated these losses, it's a dynamic situation. But just to give you a sense, for example, nylon has been continuously reducing, it was as high as $1800, in the previous quarter and the same has roughly reduced by $80 to $90 so there is a lag effect. We import all our nylon chips, by the time we open our LCs and the material is shipped and arrived in India, there is sometimes a time lag of 45 days. Whereas in the local market we sell on an immediate basis.

So there is that timing difference in raw material and the selling prices adjusts immediately, the case is similar even when the prices go up they are adjusted immediately in the finish goods. So, for example, when the prices were reducing, I was consuming higher price raw material of previous months, whereas I was selling at the current price of the lower price. So, almost 80 to $90 on the nylon side, over a period of three months would have been probably incurred.

Dhwanil Desai: Okay. So, during Diwali time there was some lull demand on the nylon side so are we in slightly better market environment in this quarter?

Abhishek Mandawewala: Indian market continues to remain very, very challenging and tough. I don't know, you must be speaking to other companies and industries, I don't know how they are doing but certainly in our industry, when I speak to everybody, it's certainly a tough environment to operate in right now. But the Diwali period was a very tough period, currently the utilizations are better than what we were doing at that period of time.

Dhwanil Desai: Okay, last question, when I see all cost items, one thing that continues to bother me is that, our volume growth is 7, 8 or 9% however our other expenses are growing at 18% - 20%, can you give some idea on that, are there are any controllable element within this bucket which you can control and will grow at a slightly lesser rate or at least in line with the volume growth or realization growth?

Himanshu Dhaddha: So over the last few quarters if you would see, more or less it was in the line of the volume growth, but yes, over last year or so, because of the dyes chemicals, packing material and the power and fuel cost which has actually increased to a next level, has actually led to unprecedented increase in the other expenses, because there are a lot of expenses within the ambit of other expenses which are more or less variable in nature and the rate increases in those actually effect even if the production is not increasing. So, more or less now it is stable at the current levels.

Dhwanil Desai: So from this state, is it fair to assume that, other expense should grow in line with volume increase at best, is that a right answer, given the prices remain range bound.

Himanshu Dhaddha: So, it all depends on the prices, but given the prices remaining the same it should.

Abhishek Mandawewala: From the low of 2018 the power cost has probably increased by more than Rs.1.50. So if we just take the Rakholi plant, if we consume 1 crore units that's Rs.1.5 crore per month, turning into Rs.18 crore a year to that extent the cost has just increase in power. The chemical and the dye's costs have also gone up, hopefully that is also settling down. Now, with this new coronavirus and all I don't know what will happen, but hopefully, it will not be too bad, and hopefully the prices will not go up. Some part of that other expenses is actually fixed expense. So, technically speaking, if the prices remain stable, it should increase lesser than the revenue not more than the revenue.

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

Rishab Shah: I just want to understand, recently we have been hearing that Alok Industries and Gardens Silk are expected to come back full-fledged with backing of stronger players. So how does that change the supply dynamics of polyester and nylon industry on both product competition and raw material procurement side?

Abhishek Mandawewala: It's a good question. So, if we take both these companies they are large players. I think their capacity is about 0.5 million tonnes or something, most of the business they do is in commodity yarns of polyester. Our exposure in that segment is almost negligible. We have some yarns that we supply, but it's a very, very tiny segment for us. In my opinion, they might recruit some people from our plant apart from this hassle, from a business point of view, I don't see anything, unless they decide to venture into some new product or something like that, which I don't suppose at this point in time, but I don't think it should be some major impact.

Rishab Shah: Okay, what but actual competition and what about the raw material procurement side, will the raw material prices increase for us?

Abhishek Mandawewala: No, that will actually make our life much easier because, we are buying a lot of chips and we are buying a lot of POI especially for our Palghar plant, both these options were not available earlier because of whatever reasons and if tomorrow, strong players take over these companies, we have more options for raw material. In our opinion, it should actually help us more than it should hurt us.

Rishab Shah: Okay and second question, Silvassa players had the benefit of lower power costs as compared to other players say Gujarat or Maharashtra. So is it expected to continue in new future and how much is the personal difference in power cost unit for Silvassa versus other players. Can you just help me there?

Abhishek Mandawewala: I cannot comment on the other players. But the Silvassa power cost has increased quite dramatically in the last one and a half years, it has risen quite a lot for various reasons. Since I don't know what their plan, or their vision is, it's very difficult for me to comment, what's going to be in the future. But as of now in the last year and a half or two years it has increased quite a lot.

Rishab Shah: So at least power cost in Silvassa versus Palghar what is the difference is it the same or?

Abhishek Mandawewala: No, there is a difference, actually it changes every month. It's very difficult for me to say because every month it changes there is something called as FPCA charges which fluctuates based on various factors, so month on month it changes but certainly Rakholi is cheaper than Palghar.

Rishab Shah: Okay. And last question, just want to understand recently this ADD has been removed on MEG, so how does it impact your revenues and margins if you could just help there?

Abhishek Mandawewala: So the raw material price has become slightly cheaper and which is good for exports, because it's a global market. So reports might be good but in local market generally the prices of raw material come down immediately and even the finish good prices come down.

Rishab Shah: How much has raw material cost decreased for us in personal terms from earlier?

Himanshu Dhaddha: 2 to 3% in polyester only.

Rishab Shah: Okay, thank you. I have one more question can I ask now, or should I come back in the queue?

Himanshu Dhaddha: Yes. You can ask.

Rishab Shah: So, the last question is, you mentioned that there was an increase in working capital due to exports. So, because normally other players, they have this advance payment or LC terms. So, what is our policy on exports, how much receivables do we have in terms of days?

Himanshu Dhaddha: So exports normally are ranging between 90 to 180 days.

Rishab Shah: Okay, across all countries?

Himanshu Dhaddha: Yes, it depends on the country-to-country and the customer-to-customer but it ranges between 90 to 180 days.

Moderator: Thank you. The next question is from the line of Ayush Mittal from MAPL Value Investing Fund. Please go ahead.

Ayush Mittal: It's good to hear better confidence and that the company is on a better footing. I have a couple of questions around the outcome of the expansion that we have done over the last one year, like last two-three quarters we have started ramping up on the CAPEX we did on the weaker side, this must be the reason why our turnover has increased. So, what I was trying to calculate was that we did keep it for almost 100 or 120 odd crore and the turnover increases close to 100 odd crore is that a right number?

Abhishek Mandawewala: So, turnover actually depends upon the raw material prices and so, actually we have to see in terms of tonnage rather than in terms of value.

Ayush Mittal: Yes, but broadly Is it a right number?

Himanshu Dhaddha: Sorry repeat the number.

Ayush Mittal: 100 odd crore turnover increase after this CAPEX?

Himanshu Dhaddha: Yes, roughly 100 to 200.

Ayush Mittal: Yes, but if we just look at the like effect on the margin, profile has not changed too much, despite so many other things going in favor of us like better export orders, better customers and so many things have improved for us. So as a company margins should have been much better that is what I feel. Given that we just started a CAPEX which we wanted to do for such a long time. Any thoughts on that?

Abhishek Mandawewala: So I differ a bit, incrementally there is a large proportion of incremental profit that has come as a result of that new CAPEX. I don't want to comment on what that number is, but incrementally that CAPEX that we have done is paid us significantly higher than the original returns that we were getting on average from the rest of the business. As I told you earlier in my commentary that some legacy parts of the business are not doing well, in fact they are doing today probably in terms of margins as bad as what it was during the demonetization and GST period. So when combined, the effect gets crowded out, if this investment has not happened, our results would have far worse than what they are today.

Ayush Mittal: Okay. So, basically what I wanted to check, given that two, three quarters have stabilized since you did this CAPEX, is it laying out as per your expectations of IRR and ROE, etc?

Abhishek Mandawewala: Absolutely, it is playing out, to be honest with you slightly better than my expectation. Now we are trying to squeeze the asset as much as possible in the sense we are trying to produce more and more. There are lot of operational improvement initiatives in that area also and as I mentioned in my commentary, even last quarter we have produced more than we have ever produced before. In terms of the per day production, our January production was even higher than what we did in let's say in the average of the December quarter.

I certainly feel that, in that part of the business it was an investment which was for me absolutely justified, if you notice, the EBITDA margins of the business have also increased. In this quarter, the EBITDA margin was roughly around 9.8% as compared to 9.3% in the previous quarter and if you go to the previous years we had gone down to as low as roughly 6%.

Ayush Mittal: Yes, but Abhishek the question here is that for CAPEX where we see asset turn of, I believe the margin profile should have been much higher, that is what I'm trying to just or maybe as you switch from mono color.

Abhishek Mandawewala: You are looking at it in totality, you're not able to see because you don't have those numbers from us, i.e. the impact of legacy business loss versus new CAPEX extra profitability.

Ayush Mittal: And also there was some technicality you had mentioned earlier about mono color to tricolor going forward as you will spend more time, as this gets more stabilize you get more customers. Is that happening and that should lead us to better profitability?

Abhishek Mandawewala: So as I mentioned, mono and tricolor they are interchangeable, certainly the tricolor products will be more profitable than mono color. But the volume at a AYM level, for you to see the impact of that is not going to be seen, since the impact will be going to come at micro level. It's not going to happen today or tomorrow and take our profitability from 10% to 12% or something like that.

Ayush Mittal: Of course. And, like one of the earlier participant had asked about the volume growth, can you share more thoughts on the same going forward?

Abhishek Mandawewala: So, more or less we are utilizing our capacities with the exception of Palghar. Now, the way to achieve the volume growth is through the throughput improvement initiatives that we've taken up and running the plant more efficiently, having better utilizations, lower downtimes, and lower change over times. A lot of work has happened in that, but still a lot of opportunities are there in front of us. So increasing the number of ends in the line, all those kinds of initiatives are still ongoing, we have already achieved success in some lines, and now we are trying to replicate that same success in other lines. As we go forward over the next couple of quarters you will certainly see more volume growth that is of course contingent upon us being able to sell that in extra value.

Moderator: Thank you. The next question is from the line of Ayush Bhutada from Aequitas Investment. Please go ahead.

Ayush Bhutada: Sir first in the last concall you had mentioned that the nylon yarn imports from China had increased substantially. So what is the situation there?

Abhishek Mandawewala: The import still continues in the last quarter in Q3 it actually touched a peak. In one quarter they had imported roughly 8000 tonnes or something, that's almost a run rate of 2600 to 2500 tonnes, they are still importing roughly 15000 to 1800 tonnes as far as I understand. I think last month the figure was 1800 tonnes, so the import still continues, it's a tough market right now.

Ayush Bhutada: So does that the situation change because of the whole coronavirus thing?

Abhishek Mandawewala: Right now, I don't know so it's too early but still right now there is imports, the imports that are coming now is the import that was booked one and a half months back. It is already sold the impact of that coronavirus will be probably in the next 15-20 days.

Ayush Bhutada: Correct. And what is the update on the anti-dumping duty that was supposed to be revealed?

Abhishek Mandawewala: As such, right now there is nothing that I would like to share on the concall. It's a process which is going on and I don't want to publicly say anything in the middle of the investigation which is happening.

Ayush Bhutada: Okay, so the investigation is still going on?

Abhishek Mandawewala Correct.

Ayush Bhutada: Okay. Sir how much capacity does AYM has in of nylon filament yarn?

Abhishek Mandawewala: I cannot comment on that. I'm sorry.

Ayush Bhutada: Okay. So who are our close peers?

Abhishek Mandawewala: In nylon?

Ayush Bhutada: Yes.

Abhishek Mandawewala: Century Enka, PNP, Salasar, JCT and Truffle. These I would say are the major people who are present in the market.

Ayush Bhutada: Okay, and what is the outlook for nylon filament yarn, you said that the things have started improving right?

Abhishek Mandawewala: Last quarter were the lowest margins that I've seen since in last two and a half to three years. Hopefully, things will improve, but with nylon since it's such a volatile thing, with experience I have stopped trying to predict what nylon business will do.

Ayush Bhutada: Okay, and so for the raw material for the nylon business. You said we import it right?

Abhishek Mandawewala: Correct.

Ayush Bhutada: From where do we import it?

Abhishek Mandawewala: I don't want to comment on our sources, but we are importing from Asian countries. We are not having an impact of coronavirus in nylon if that's what you're getting to.

Ayush Bhutada: Okay. So overall in percentage of revenue how much is the nylon segment contributing?

Abhishek Mandawewala: I cannot comment on that. We don't give the breakup of individual segments.

Moderator: Thank you. The next question is from the line of Rohith Potti from Marshmallow Capital. Please go ahead.

Rohith Potti: I missed the debt number could you repeat as to how much it has reduced to?

Himanshu Dhaddha: Net debt as on December stands at 229 crores, as against 258 crores in this last quarter.

Rohith Potti: Okay. So the interest expense I don't think it reduced to the extent that the debt reduce is it because it was paid towards the end of the quarter or something?

Himanshu Dhaddha: Yes, so one of the reason is that, plus there has been an increase in working capital requirements on account of increase in exports.

Abhishek Mandawewala: This quarter we have had some other bank charges which don't occur every month, so maybe that also led to higher increase.

Rohith Potti: Okay. So you will see a more material decrease going forward hopefully in this number?

Himanshu Dhaddha: Certainly as we go along and the debt gets paid down, there will definitely be a reduction.

Rohith Potti: Understood. So you did mention that the domestic scenario looks quite challenging right now. But how's the export looking for you?

Abhishek Mandawewala: After coronavirus, certainly inquiries have picked up. Our business is also picking up; particularly on the polyester side things were looking good, good work is even happening on the textile side of the exports. I'm hoping that we will have more and more business coming from that side of the business as the time goes by. I have also mentioned earlier that on a company level we are almost at 42% from roughly 18 to 20% around four to five years back, slowly and steadily we have reached up to 42.

Rohith Potti: Okay. So with the government withdrawing that export incentive scheme, does it change the economics of the export business materially and how does it impact you guys?

Abhishek Mandawewala: No, I think that was for made-up or something, it's not in our segment. Most of the nylon products that we sell domestically are consumed locally, there is very little exports of those products. So, I don't think that we get affected but we have some yarn lined customers who are exporting and they might get affected because of that or there will probably an indirect impact, there will be no direct impact as such.

Rohith Potti: Okay, understood. And you expect the composition to shift even more towards exports going forward. So we have it 42% as you mentioned. So do you see that number going even further up?

Abhishek Mandawewala: I don't know whether it will go up or not, but that is certainly our plan and intention. That's all we have been trying.

Rohith Potti: Understood, and coming back to the BCF new capacity that we have added, have we hit at a base level like pre-throughput and efficiency improvement have we hit 100% utilization there already?

Abhishek Mandawewala: Theoretically, we can never hit 100% utilization. But just for your information utilization and overall efficiency i.e overall utilization was roughly 83%.

Rohith Potti: And is that the peak?

Abhishek Mandawewala: No, I think we can go higher.

Rohith Potti: Okay, understood. So this is not taking into account any efficiency and throughput improvement that you think you can.

Abhishek Mandawewala: In December we had done something, it's not that everything happens in one day, in December we slowly inched up. The quarter before that we were at 82, the quarter before that we were at 61 so, certainly there have been some steps that we have taken to improve, but this is an ongoing exercise but certainly we have done a lot of things where it should go up even more hopefully going forward.

Rohith Potti: Understood and broadly both this BCF and the export business would I be right in thinking that the return profile here and the quality of earnings here is to your liking and your target of around 15 to 20% that you had mentioned?

Abhishek Mandawewala: I don't want to comment on the individual margin profile or individual parts of the business but I will certainly say that we are very mindful of new CAPEX and any new CAPEX that we do will be keeping in mind bear minimum threshold for return on investment and only then we will do it.

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

Dhwanil Desai: So one question you have been traveling this journey from a pure commodity kind of a company to become a company which is likely more niche, protected. But still we don't have any quantitative feel of where we are in that journey, and that's what I have been asking to you repeatedly and I think you were at a very early stage of the journey, so you said that we will probably disclose that at a future time. So, If you can give us some sense whether out of total business, 15/20 or 25 percent of our business we feel we are comfortable with in terms of the quality of the earning?

Abhishek Mandawewala: I will answer this question not by giving numbers but theoretically. I'll mention a few things which will hopefully answer your question. So, number one all our incremental efforts are going into developing the kind of businesses that we are looking to develop, incrementally most of the new developments that are happening are happening with customers that we want as partners. As I mentioned in my starting commentary, there are lot of customers now, we have a good healthy set of customers who are now starting to look at us as partners and not as suppliers.

There is very strong communication and relationship that we share with these customers, many of these customers are not backward integrated, lot of the products that we supply, particularly in the floorcovering segment, whether it's BCF, or whether it's from textiles are to customers who are competing with other players who are backward integrated, for them, it's a matter of great uncertainty not having that backward integration of their own yarn and they are looking for partners who can help them to compete against the giants who have their own backward integrated plants, I am proud to say but many of our export customers, are starting to get that sense with our company and some of them are even asking us that we are doing this business what else is it that you can do for us, where else can we increase your share of business with us. So, these are some of the things that some of our customers are saying. The one of the other way that you can look at it is, you just look at the exports that has been growing, certainly the quality of exports is better than the quality of business that we are doing in India, that does not mean every kilo of yarn that we sell in exports is high quality business, but if I look at the basket, in general quality of exports that we are doing is better than the quality of local production that we're doing. One of the ways for you to track what you're saying is to look at the export percentage, whether it's increasing, decreasing where it's going, that will also give you a small sense of where we are and where we are heading in that journey. So once again, it comes with a caveat, not all business, Indian business is bad and not all export business is good. But, in general as I said, export businesses are lot more difficult to do, there are a lot of things that we need to get right in order to service the customer in a proper way in the export market, a lot of things have to fall into place in order to service the export customer which in the local customer, maybe is not we are not as stringent as our export customers. I hope that answers your question.

Dhwanil Desai: And second question is on the Palghar, we've been making consistent efforts to improve our sales from there. So, again I understand that you won't be able to put any timeline around that, but are you seeing the first sign of things getting better, of course there is a steady progress, but do see that we probably in one/two or three quarters we may reach at an inflection point, especially when you were saying that you're looking at the solution dye nylon and that as a big segment. So if you can comment on that?

Abhishek Mandawewala: I don't know how to measure the progress that we have made but if I am entirely honest with you then no, we are making progress, but we are nowhere close to where we need to be. To answer your question very honestly, other way to look at it is, if we go back to the Rakholi plant, where we were in the Rakholi plant. Now, margins can be wherever it is, but if you just look at the operations of the Rakholi Plant, the kind of EBITDA that we were doing earlier, the level of wastages that we were doing, the kind of sales that we were doing, the kind of customers that we were working with, in 2017 or 2018 and where we are today, there is a huge difference and it happened slowly and steadily, but at the same time it also happened all of a sudden, in one way and if you had asked me when will the Rakholi business start to perform better, I would never be able to say that, by this time the Rakholi business will start to perform better as compared to before or whatever, same thing with Palghar.

Our job is just to keep at it and fortunately, we have the experience of a turnaround with the Rakholi business and hopefully we can learn from that turnaround and replicate some of the same things that we did in Palghar, hopefully the same results will pay off, but it's a slow process. In Rakholi we started first with a plant, we had a lot of old kind, traditional mentality kind of people in the factory who were not allowing to make the kind of changes that we wanted to make, so we completely changed the entire team altogether over there, everybody was new, there were no old people all together, that caused a big disruption, it took some time to settle down. Then there were issues in getting the business, the business started coming, then there were issues in delivering, in executing, we sorted out all those orders and now it's starting to work like a slightly better oiled engine. Same thing in Palghar, we had all these old people who had all this completely old mindset, we have to start with again, and we put a new team in place in Palghar. That churn is still happening, it's still not completely done, but almost done. The next setup is the sales is a problem, so we took the steps to get the sales people on board. Now, hopefully the sales people will start delivering the results we got, the floorcovering team involved in Palghar, we have launched two new products there. So, everything will take its own sweet time, for me if you ask me whether it will take six months or five years, I will not be able to tell you how much time it will take. But there is no doubt that there is a focus on that business and every day we are making at least one step we are trying to take forward. We might also take two days or five days were we might take one step forward and then on sixth day, we might also take four steps backward. But in general we are slowly and steadily making progress in that front. The potential of this plant is enormous, the kind of profitability that we can achieve from this plant is absolutely, it is not fathomable and as a management it is our failure that we have not been able to exploit it. But, we will try and exploit that potential as soon as possible.

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

Rohit Balakrishnan: Could you please also give the capacity utilization in other segments as well, BCF as you mentioned 83%, if you can also talk about spinning and textile?

Abhishek Mandawewala: Palghar it's roughly 60%, in textiles in spinning and texturizing it is roughly between 75% - 85%. There are several segments, so I'm just giving a range when I average out all those segments within that particular division, so it's roughly between 75% - 80% in spinning, and 80% would be textile if I average out the spinning and texturizing then Palghar would be roughly 60%.

Rohit Balakrishnan: So, I look at the volume growth, in last couple of quarters Y-o-Y it's been very strong but sales growth has been high single digits. So it is because of the nylon prices is that the reason why we are seeing that?

Himanshu Dhaddha: Nylon and polyester price has come down. So as a result of that, volume is the best way to measure our business if you ask me other than rupees.

Rohit Balakrishnan: Sure and just in terms of, would it be fair to say that all the incremental exports that we would have done in the last maybe couple of years. All that would be the kind of business that you would want in terms of kind of customer or in terms of the kind of margins is that a fair?

Abhishek Mandawewala: All is a very wrong word; I would say a good part of that incremental businesses is in the area that I would like.

Rohit Balakrishnan: Okay. And finally I think I missed this I got dropped off in between. So we've almost paid around 40-45 crore in the last couple or last three quarters, but the interest expense is still sort of around 9.5-10 crore. So when do we see that impact coming through?

Abhishek Mandawewala: As I said in this quarter there were some other bank charges which we had incurred, they don't happen every month. I would assume that in Jan, Feb and March itself we should see some reduction. But even from last quarter, if you see in last quarter it was 10.2, this quarter is 9.8. So, already there is a deduction of roughly 40 lakhs.

Rohit Balakrishnan:: And we are going to stick with old tax rate right?

Himanshu Dhaddha: Yes, as of now we are going with the old tax regime only because we have accumulated MAT credit as well as an unabsorbed depreciation. So, till the time we actually utilize that we will continue in the old taxation.

Rohit Balakrishnan: Great. And what is the interest cost that we have right now?

Himanshu Dhaddha: Rs 9.8 crores

Rohit Balakrishnan: No, I am saying rate of interest that we have on our debt what is that?

Himanshu Dhaddha: All details are given in the annual report; you'll be able to see in it. There is no change in that.

Moderator: Thank you. Next question is from the line of Rishab Shah from RS Capital. Please go ahead.

Rishab Shah: In the annual report it is mentioned that, the Maharashtra government power concession we are yet to receive in FY20. So currently, power cost around 7% of our sales in FY19 so when we get the full benefit of that concession how much as a percentage of sales will it be?

Abhishek Mandawewala: Which annual report are you referring to, we have already received in Maharashtra we have already had the textile benefit. We are already getting that.

Himanshu Dhaddha: Current year we are already getting that. I think it was announced in the month of December or January, the government has actually started giving that benefit from the month of May, so in the current year we are any which ways getting that power benefit.

Abhishek Mandawewala: Which year's annual report are you referring to latest one or of the previous years?

Rishab Shah: Latest one FY19, it is mentioned that we will start accruing in FY20 is mentioned here.

Himanshu Dhaddha: Correct in FY20 we have already started getting that.

Rishab Shah: Okay. And last question is, someone asked about this MEIS removal. So you had mentioned that the company will be indirectly impacted. So how is it, we'll be impacted indirectly?

Abhishek Mandawewala: Some of our customers and customers - customers might have lower profitability because of lower MEIS and they might have lower margins, because of that, they might not be able to compete with some of the neighboring countries. But as I said, it's an indirect impact and not a direct impact, so to whatever extent they are impacted. You might know, you might be speaking to a few of those companies as investors, if their volume comes down to that extent, they will place less yarns orders. It's difficult for me to say how it will impact.

Moderator: Thank you. Sir we do not have any questions in the question queue. As there are no further questions, I would now like to hand the conference over to the management for closing comments.

Himanshu Dhaddha: Thanks for attending the calls with your support, we continue to work hard and improve quarter-on-quarter to drive the journey of sustainable profit growth. Thank you very much.

Moderator: Thank you. On behalf of AYM Syntex Limited that concludes today's conference call. Thank you for joining us and you may now disconnect your line.
