AYM Syntex Limited
FY2016 Annual Results and Business Update Conference Call
May 25, 2016

Moderator: Good Day and Welcome to the AYM Syntex Limited Conference Call to discuss the FY2016 Annual Results and other business updates. On behalf of AYM Syntex Limited, we have with us the key senior management including Mr. Abhishek Mandawewala – Whole Time Director, Mr. S.M. Khire – Director of Operations and IR Team. 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 phone. Please note that this conference is being recorded. I now hand over the conference to Mr. Abhishek Mandawewala for the opening remarks. Over to you, sir.

Abhishek Mandawewala: Good evening, Ladies and Gentlemen. Welcome to AYM Syntex Conference Call for Quarter Four 2016. Thank you all for joining us. Thank you for taking the time out of your busy schedules to join our conference call.

I would like to talk about our annual results for March 2016 as compared to March 2015. I am pleased to announce good set of results for not just this quarter but also for this year. Many of you would have seen the results 15 days before, but nonetheless let me just go through.

Our sales have come in at around Rs.800 crores for the year 2016 as compared to Rs.838 crores for the year 2015. Our operating EBITDA was at Rs.108 crores as compared to Rs.87 crores for the previous year. EBITDA margin has jumped up to 13.6% as compared to 10.4% the previous year. And finally, our return ratios, return on capital employed stands at 21.6% as compared to 19.6% the previous year. Quarter-to-quarter comparisons, there have been some concerns regarding year-on-year growth of sales, we are pleased to announce this year in March quarter our sales stands at Rs.221 crores which is a small growth of around 3.6% over the corresponding quarter of the previous year which was at Rs.213 crores. Our EBITDA was almost 46% higher at Rs.31.5 crores as against Rs.21.5 crores. There has been a drastic improvement also in the margin at 14.3% as against 10.1%. Also, our PBT numbers were 60% higher at Rs.18.3 crores as against Rs.11.4 crores and this quarter we have paid almost full rate of tax and despite having a 60% higher PBT there has been a small growth, but growth nonetheless, of 4.7% in the PAT number at Rs.12 crores as against Rs.11.4 crores in the corresponding quarter in the previous year.

Let me move to some of the updates on the business, some of you might have read the note that went along with the minutes of the Board meeting. Our Board has approved a project CAPEX of around Rs.75 crores to take place over the next 12 to 18 months and this Rs.75 crores will be spent mainly on debottlenecking and building of infrastructure so that it allows us to expand our capacities going into the future. However, most of this Rs.75 crores is being spent on things such as construction of warehouse and construction of buildings and many of these investments will not actually payback returns immediately. Some of the investments will include an automated warehouse which has been long overdue for our Company and we want to take the opportunity to now build a fully automatic warehouse which will not just allow us to be a little bit more manpower efficient but will also help us to reduce the wastages and downgrades which result due to lack of proper place for storing of the goods. We will also be making, constructing a couple of buildings which will allow us to expand our capacities going forward and almost Rs.35 crores to Rs.40 crores of this Rs.75 crores will be spent towards such kind of expenditure. There will also be some lab equipments which will be built, and again, they will not immediately pay off but they are required for our business going forward. Some investments will be made in commercial lines but both on the textile spinning side as well as BCF, but we do not expect any of these investments to start paying returns in the coming year 2016-2017, they will probably start paying only after the 2017. From the old projects, almost everything has been complete, only Rs.30-odd crores of CAPEX is pending, Rs.22-odd crores of which will be funded by debt and balance by internal accruals and equity, internal accruals basically. And most of this CAPEX will be completed by the end of this quarter, maybe there will be some small CAPEX still left over from the previous plans after this quarter. Also on the debt side, we stand at about Rs.220 crores net debt which is a small increase from the previous quarter, our long-term debt and our LC acceptance and short-term borrowings add up to about Rs.278 crores and we have a net cash balance of about Rs.55 crores, so the net debt ends up at about Rs.220 crores.

On the business front, there are some highlights as well as some concerns going forward. In terms of the highlights, of course CARE has continued or confirmed our rating of AA rating again for this quarter which will allow us to continue our low finance cost or probably help us to even reduce it a little bit more. Last quarter we have commercialized one new product, well the product had been developed but last quarter was the first time that we received bulk orders. Please do not ask me any questions regarding this new product, I will not be talking about any details here. Also, there has been some fantastic work which is going on on operational improvements I think in the month of March as well as in April for that matter, almost all production efficiency records were broken, not really productivity but production efficiency records were broken. So when it comes to wastages, downgrades, plant utilizations, efficiencies, all these kind of things costs, there were many records which were broken over the last two to three months, so I am glad that this was and is an area of focus for us and finally we seem to be getting some results here. Also, another record was made in terms of sales for nylon, in the month of March were able to achieve record tonnages for the month of March.

On the concern side, there are a few concerns which might impact us going forward and we need to be vary of these issues. On the BCF side last two to three months we have faced a few issues when it comes to quality and we have received some, there have been some issues in the plant and it is a difficult business and to maintain the quality and to maintain the customer expectation is not easy. Good work is going on in order to bring the quality up to speed and to make sure that some of the new issues which are cropping up do not repeat again. But nonetheless, in the last three months we have faced this issue, hopefully going forward with the work that is happening in the plant some of these issues might not continue. Also, in Palghar plant, the new automated dying, there was some teething problems, they continue to have some teething problems with respect to stabilization and it seems that it will take a little bit longer than expected in order to get the full high quality throughput from the plant. So perhaps this quarter, or it might even extend to next quarter but there is a small bit of struggle there but hopefully again we have full faith in our team to actually deliver, this is the first time that we are running such a plant and hopefully we should be able to stabilize this sooner rather than later. Also, there has been some delay in the commencement of our new nylon plant and the originally expected date was around March and that got extended to May and now it looks like it will go into June or maybe the end of June, so we will not even be able to have impact of the new nylon line even in this quarter it looks like. Apart from that, the regular issues which I have been talking about since the past few conference calls, nylon competition we continue to see many new players coming in and also some of the existing players expanding capacity and next three to four quarters we might see some increased competition and maybe some reduced prices, so we need to prepare ourselves, embrace ourselves for these new entrants.

Similarly on the BCF side also, I have been always talking and warning that there are lots of players who are coming in, particularly from Turkey and maybe even the Middle East and many of these new players are coming into the market at lower prices and it is a threat going forward and we need to be vary and our product development team needs to make sure that we are always staying one step ahead of the curve otherwise these new entrants can actually debt our margins. Finally, ADD sunset review will take place in early 2017, the anti-dumping duty for nylon and again there might be a threat, we never know what the final outcome will be.

So with this commentary, I would like to open the floor up for questions if anybody has anything to clarify.

Moderator: Thank you. We will now begin the question-and-answer session. Our first question is from the line of Mitul Mehta of Lucky Investment Managers.

Mitul Mehta: Abhishek, just want to understand, so we have faced teething problems in some of our segment lines, but despite that we seem to have matched the turnover of last year and margins apparently have moved up sharply. So was there some sort of one-off, what further factors which has attributed to kind of improvement in margins despite the fact that competition is moving up, we faced production issues at our BCF plant which was a higher margin product. So what is driving this margins and going into future once we get this BCF line running, then is it fair to assume that we will have higher output and so therefore the growth should resume because obviously there is lot of deflation in the system so therefore we are not seeing any growth. But when do we see the growth coming up? And also, if you can help me to get some data point on the BCF for this particular year or say for second, because that is when our plant actually went full stream. And also in term of the mix, the product mix, would it be possible for you to give a broad breakup in your product mix? And my last is, in terms of CAPEX you said that there is a spill over CAPEX of about Rs.30 crores which is yet to be incurred and then there is a further on CAPEX of about Rs.75 crores, so my understanding is we are going to spend about Rs.105 crores both put together, if you can correct me on this. And you did mention that you are not going to talk much about the new product line, but even if you can give us some addressable opportunity along this, is it a very large product or it is a very small product?

Abhishek Mandawewala: Thank you for your questions Mitul, I will try to answer one by one. So the first question that you asked is about growth and when it will start coming. See, again I will say, some of the similar things that I have been saying in the past few phone calls, I think more important than the quantum of the growth is the quality of the growth and everybody in our Company is now committed towards building good high margin, high quality of products which are differentiated from the competitors. And going forward the growth will come as a result of increase of this kind of business rather than just for the sake of it. So as I said in some of my previous calls, there are still some businesses that we do which might have very high margins but it does not mean, and even though there is an opportunity to expand in those areas, as a company we are consciously taking a call not to add new capacity because the barriers in those areas are extremely low and you never know when more capacity will come and it is a matter of time before prices start dropping. So even though those opportunities exist, it does not make sense for our Company to invest and to grow in those areas because there is no real competitive advantage or barrier to entry or something that we are doing unique, it is just simply a supply demand situation and there is no long-term potential over there. But there are at the same time what we are trying to do, we are trying to work on some new products and of course these are uncertain things, you never know which products will click, which products would not click and at the same time some of the lower margin products we want to replace with mid margin or higher margin products and until that churn keeps happening and we are more focused on the process and once we start getting into that mode growth will take care of itself but we do not want to just chase growth for the sake of it, it has to come in the right way and we want to be there with differentiated products and if we are doing something different as compared to our competitors then it makes sense to invest to grow. So I hope that answers that question. With regards to BCF, I think you said something that BCF is a high margin, it is nothing like that, as I said even earlier, BCF is not necessarily a high margin business, it depends on product to product, some products in BCF are high margin, some products in BCF are low margin. I do not think it is a right comment to make that BCF is a high margin business, I do not think that is true at all. But to answer how the margin has been increasing, it is multiple factors, I think the biggest factor is of course improvement of product mix, so we continue to get rid of some of the lower margin products and come out of those businesses and replace those businesses with some higher margin products or there has been some increase in volume of the higher margin products. Also, some of the operational efficiencies that we have been able to bring in the process have particularly started to kick-in in the last quarter and we hope that they continue going forward. There has been a huge emphasis on improvement of cost and improvement of efficiencies and reduction of wastages, downgrades and all these small small things really add up and you know they go straight to the bottom-line. So they might seem small in quantum but they have effect of going straight to the bottom-line and have a disproportionate impact. In terms of the product mix, again sorry Mitul but we cannot go into much details about that right now, as you know our competitors are listening in and until we go further and we create some more distance between us and them, the lesser that we say the better it is for the Company. With respect to the CAPEX, you are absolutely right, the Rs.30 crores is a spill over portion of the company, Rs.75 crores is the new CAPEX so the total CAPEX will be around Rs.105 crores. Now this CAPEX, Rs.30 crores will take place over the next two three months and within this quarter we hope that it will get completed or most at least bulk majority, 75% of it should be completed. With respect to Rs.75 crores, it will go into the middle or even late part of 2017, it is not that we will be committing and incurring this full expense immediately, so it will happen over next 12 to 18 months. So hopefully the cash flows of the Company should well support, but of course depending on the decision that we take on the apparel project we will take a call as to how the product needs to be funded. And in terms of the new product, I cannot share much detail but see it is a small opportunity, it is not some game changing product and maybe 5,000 ton opportunity, it is nothing like that, it is a very-very small opportunity. But why I decided to mention it is, it gave me a great sense of satisfaction and pleasure because we have embarked on this journey of differentiation and of innovation and individual small small products they will add up to big volumes maybe few years down the line. So this is just one step in that direction and the reason I said this is not because to give the message that it is a big product and it is a big opportunity and it will change the fortune of our Company and our P&L, but only to say that that journey has begun and I am happy that to announce that we commercialize this product in this quarter, even though less than 1% of the volume might be coming from this product. But hopefully over a period of time we will be able to, so after so many quarters we have been able to commercialize a new product over a period of time, may be now the run rate is maybe one product a year or something but over a period of time we hope that this run rate will start becoming one product a quarter and then maybe a one product a month or something like that. So that is the reason why I actually mentioned. So I hope I answered all your questions?

Mitul Mehta: Abhishek, what was the BCF volume in this particular year?

Abhishek Mandawewala: We do not share the volumes Mitul, we do not share it.

Mitul Mehta: At least if you can give us some volume growth for the year and in Q4, I mean in the entire system what was the volume growth?

Abhishek Mandawewala: So again, see we have not shared the volumes for the first two quarters, the last quarter I think I spoke about little bit the volumes, but we have had about in the last quarter, I can share the last quarter, we have about 3% increase in volumes.

Mitul Mehta: Q4 was 3% increase in volumes?

Abhishek Mandawewala: Yes.

Moderator: Thank you, Mitul. Our next question is from the line of Bhavin Chedda. Please go ahead.

Bhavin Chedda: Sir, we are not sharing the volumes but can you share the sales value mix, if right now the current business mix is how much bet polyester yarn, nylon yarn and BCF to just know where directionally our product mix is heading towards, so to get some guidance on how the margin improvements or how the business will look at going forward?

Abhishek Mandawewala: Bhavin, again I am sorry but we will not be able to share data about product mix and what segment is contributing how much to the bottom-line or to the top-line. But all I can say is that it is a wrong way to look at it that one segment is more profitable than the other. As I have tried to repeatedly say that it depends on what you are making, some products of polyester are having more margins, some products of polyester are having less margins, similarly with nylon, similarly with BCF, similarly with our Palghar yarn dye products. So it does not matter which segment is what but each segment has an opportunity for value addition and for high margin products and as a Company we are focused on, in each of the segment that we are participating we are focused on those high margin products, or we are trying to focus on those high margin products as opposed to looking at that this segment is high margin so we want to expand. You cannot look overall and make a conclusion, you have to look at it from product to product and opportunity to opportunity. So unfortunately I cannot answer the question of exact volume breakup, but I can just tell you little bit about how we are looking at the business.

Bhavin Chedda: And in terms of capacity utilization at both the plants, so how is it at both the plants Selvasa and Palgarh, so is there enough capacity available for you to grow in terms of volume or since I think CAPEX or majority of that CAPEX is over and now it is more of a automation and building few products. So what is the capacity utilization at both the plants to get some feel of where the growth would come from?

Abhishek Mandawewala: See, our lines are running more or less full, apart from little bit here there sometimes due to shortfall of demand maybe one odd line is short or something like that, but if you see overall, utilization was almost 96% in the year 2015-16. So from volume point of view, only some of the new investments that we have made in the last three to six months, maybe some of that will come into play, for example Palghar we expanded the capacity by 50% and that will have a year-over-year effect, also the BCF there was some downstream debottlenecking which was done, so again it will have a year-on-year, maybe not a quarter-on-quarter but maybe a year-on-year effect it will have. But more or less, when it comes to volumes the capacity is almost running full. As I have been saying earlier, I do not want to comment that we will increase the margins but I want to say that our endeavor is to increase the margins and have a better product mix before we start focusing on increasing the volumes, I think increasing the volumes is very easy, all you need to do is spend money but building great products, differentiated products which competitors do not offer, that is not easy. So our focus is towards that rather than just blindly building volumes. So volumes will come on its own, when we have differentiated products there will always be a good demand for it and customers will always want to increase, customers will always be interested in buying from you and they will not have an option of going anywhere else. So we would like to increase volumes of such kind of products. And when we reach that situation where we have many such products in our portfolio, automatically the volumes will start to grow but until then I think just to increase for the sake of increasing, it does not make much sense. But still, as you can see there is little bit of year-on-year effect with some of the new capacities that we have added in BCF as well as in Palghar.

Moderator: Thank you, Mr. Chedda. Our next question is from the line of Mr. Arjun Sanger of Reliance Mutual Fund. Please go ahead.

Arjun Sanger: Sir, just wanted to ask you, you have this spillover of Rs.30 crores CAPEX, can you please tell us what does this CAPEX entail, what is this in?

Abhishek Mandawewala: So there is some investment in some nylon, if you remember at the start of the call I mentioned our new line will be commissioned within this quarter, there has been some delay, we were supposed to commission it in March but it will get commissioned in June. So that is one, and then there are some small investments in downstream BCF again, again to prepare for the future.

Arjun Sanger: So what was the original total CAPEX plan?

Abhishek Mandawewala: You mean…

Arjun Sanger: As in this Rs.30 crores was a part of the overall CAPEX plan which was how much?

Abhishek Mandawewala: It was around Rs.135 crores in total.

Arjun Sanger: And this Rs.135 crores was going to add how much capacity relative to your existing capacity, as in what percentage expansion did that entail?

Abhishek Mandawewala: See, very difficult to say again because different products and depending on the product mix, but broadly there was downstream expansion of BCF, the downstream and not the spinning but the downstream was about 75% in BCF. So it was not that BCF capacity expanded by 75%, only the downstream BCF capacity expanded by 75% and then there was some 50% expansion of Palghar and there was some nylon again.

Arjun Sanger: And sir another thing is, I just wanted to understand what is the end use of your products, is it mostly in garments or made ups or special segment or something along those lines?

Abhishek Mandawewala: Yes, it is whole variety of applications, so from fashion to garments, carpets, rugs, automotive, socks and tapes and this and whole load of variety of application, but main application is basically garments, garments is what is the main. And when I say garments, dress materials, sarees, ethnic wear, these kind of things.

Arjun Sanger: And sir after this reduction in crude price over the last year, have you seen any shift in the market, structural shift in the market between synthetic fibers and cotton?

Abhishek Mandawewala: It is very hard to comment on such a macro issue, but common sense tells me that if the price of something will go down I am sure that demand will definitely go up. So I am not going to be arrogant…

Arjun Sanger: Maybe you will have to confirm in reality.

Abhishek Mandawewala: No, I do not know, so it is very difficult to say just sitting in the business that…

Arjun Sanger: So there is perceptible change, is that what you are saying?

Abhishek Mandawewala: Well, we cannot feel because actually if you ask me, if you speak to our marketing people, sales people they are always complaining actually that the situation is becoming worse and worse and competition is becoming more and the demand is not increasing as fast it is supposed to and they are always complaining. But definitely I am sure that if you look at it from a very broad level then, of course the price has gone down then of course the demand will go up, of course.

Arjun Sanger: And sir one final thing, like you said you are concentrating more on value addition and debottlenecking, so this debottlenecking on its own can throw at 3% - 4% volume growth, right?

Abhishek Mandawewala: I do not know what you mean, so when I say debottlenecking actually we have completely run out of space in our Selvasa facility. So now to make even a small expansion, there is no space. So we need to construct some new buildings, so even though we have not committed any CAPEX inside those buildings to put new lines or something, but we need to make it to be prepared if suppose we are successful in developing lots of new products and suppose our customers are excepting those products then we will expand and for that we need to be ready, we do not want to wait till the last moment.

Arjun Sanger: So this Rs.75 crores CAPEX is going to take care of that, is that what you say?

Abhishek Mandawewala: Yes. So as I said, almost 50% to 60% will be in creating a new buildings, the buildings itself do not pay anything so there is going to be no increase in turnover or something. But there are some full scale lines, there are some commercial lines both in textiles as well as BCF, but again, we are not expecting any of those lines to contribute to the bottom-line or to the top-line in 2016-17, they will only contribute in maybe second half of 2017-18 or something like that.

Moderator: Thank you. Our next question is from the line of Mr. Dhruv Bhimrajka. Please go ahead.

Dhruv Bhimrajka: My question basically is that, listening to your answers to the previous questions, do you expect the top-line to be flat in FY17 as well?

Abhishek Mandawewala: Let us wait and watch, I do not want to comment on anything which is going to happen in the future, future is always uncertain, but let's wait and watch over the next couple of quarters, three quarters what happens. I do not know what will happen but we have to always remember that there has been some additional, as I said there was some debottlenecking which was done, so while on a quarter-on-quarter if it might not be a impact, but maybe year-on-year there might be some small growth or… again, I do not know what will happen in the next quarter or the quarter after that, but I am just saying that there might be some year-on-year effect of the previous investments. But as such, we are almost running all our lines full and as such we do not expect the major jump in volumes, now what happens with the value you never know based on the product mix and everything.

Dhruv Bhimrajka: So your capacity utilization, if you could give a number what has been for FY16?

Abhishek Mandawewala: It was around 96%.

Dhruv Bhimrajka: So that is the combined number?

Abhishek Mandawewala: Yes, so see spinning was 96%, the textile I think was much lower, textile I think was only 70% but then you must remember that we were doing lot of job work, buying the outside POI, doing the texturising and we stopped all that business. So that has allowed our lines to remain idle, but until we do not find some value added products it is better to keep the lines idle actually.

Dhruv Bhimrajka: And you see these EBITDA margins of around 13% sustainable going forward?

Abhishek Mandawewala: I do not know how competition will react and whether our team will be able to keep up with the competition and stay ahead and develop new products so I do not know say we are now making margins which we have never made before. So all I can say that we hope that our team continues to do well and I hope they continue to develop new products so that we are able to maintain the margins.

Dhruv Bhimrajka: Right. And few book keeping questions. Is the debt you take under TUF or non-TUF?

Abhishek Mandawewala: No, we have some TUF there but it is very negligible quantity, most of debt is at full interest rate actually.

Dhruv Bhimrajka: Okay. So what should be your average cost of debt?

Abhishek Mandawewala: So including the TUF debt it is around 10.1% or something like that.

Dhruv Bhimrajka: Okay. So we should expect the interest cost to increase going forward because you will taking some debt for the expansion plans, right?

Abhishek Mandawewala: See it depends on the apparel project so on the basis that yes, if we go ahead then of course the debt will increase otherwise I think our cash flows are allowing us to…

Dhruv Bhimrajka: And what should be your tax payment rate going forward, do we expect it to be full like in this quarter you have done 33% so for full year going forward will it be in that range or it should be lower?

Abhishek Mandawewala: So we will be paying ether full or very close to full tax or a high amount of tax may be more than 25% at least, I do not know the exact number but we will be paying high tax, so almost all of us previous credits and all have almost got over and we will start to pay.. So the Rs. 75 crores, 30% will be under TUF the Rs. 75 crores CAPEX.

Dhruv Bhimrajka: And the rest will be internal accruals?

Abhishek Mandawewala: So depends it will be mix of internal accrual mix of debt again depending upon the apparel project.

Dhruv Bhimrajka: Okay, got it. And just last question, can you give me percentage of your top five customers revenue contribution in percentage terms, if you have that statistic?

Abhishek Mandawewala: We do not have it now but we do not have any customer having more than let us say 15%...

Dhruv Bhimrajka: 15% contribution to margin is that what you mean to say?

Abhishek Mandawewala: So we can come back to you with this number but I would assume that his top five would from less than 25% of our total top-line?

Moderator: Thank you. The next question is from the line of Prerna Jhunjhunwala from B&K Securities. Please go ahead.

Prerna Jhunjhunwala: Sir, your gross margin has improved quite a bit on this on a year-on-year basis. So is it because of raw material scenario improvement or is it because of the value addition that you are doing?

Abhishek Mandawewala: See the raw material actually if you see, that has actually started firming up again. So it is a mix of many things as I said earlier there has been some improvement in the product mix number one. Number two also as I said there has been a significant also a lot of good work has happened in the plant when it comes to efficiencies and wastages and cost and down grades, et cetera, so you know a little bit of that has also contributed to the bottom-line. So little bit of product mix little bit of plant efficiency improvement…

Prerna Jhunjhunwala: So how much of this is sustainable going forward apart from the raw material change, cost change the productivity improvement that you have seen how much is it possible for us on a sustainable basis.

Abhishek Mandawewala: See as I said earlier, I do not have a crystal ball to look into the future and it is very hard for me to say yes, for the next five years we will continue with 13.5% or whatever the margin is…

Prerna Jhunjhunwala: No, I am asking from that 13.5% margin. I am just trying to understand the gross margin tat you have reported. There could be some impact of the raw material change and there is some impact of product mix change and there is some impact of efficiency change. Product mix change is sustainable may be and the efficiency change is sustainable. The raw material change I understand that is market based. So how much can we think that this much gross margin is on a sustainable basis and it should not go below this? I am just trying to understand from the business perspective.

Abhishek Mandawewala: I will say the same thing it is very hard to say and with respect to raw materials I think we have a back to back agreement with the customers as soon the prices go down, the finish good selling prices come down but sometimes when the prices go up we are not able to immediately get the correction of prices some of that we are experiencing right now but very hard to say ma'am that what will happen in the future how much sustainable it will be, how much it will not be. It really depends okay a lot of factors and I do not want to predict anything. It depends on our pace of developing new products it depends on our relationship with our customers how much we are able to our product mix. It depends on the pace how much new competitions comes in the exiting product mix and how fast they are at the capacity how fast the prices god won or how fast the demand goes up. You know it is very dynamic situation and I think it would be wrong for me to say okay, I am confident that for the next five years we can get this whatever gross margin, we have, I do not want to make any such comments, it would be wrong for me to say that so, we will have to take it one step at a time and our company has started on a journey you know we hope that if we are able to succeed on that journey then if we do what we are suppose to do then we should be keep the margin or increase the margin and if we face headwinds and we are not able to commercialize new products and we are not able to develop new products or our products are not getting commercialized and we are not able to improve our product mix then the margins will go down. But it is very difficult for me to remain fixated on a number yeah, this minimum will come and this much maximum will come, it is difficult for me to say actually.

Prerna Jhunjhunwala: Okay. So sir, second question would be how much of your product mix would be value added, I understand that you cannot give us the product mix but if you could share the whether 10% of your total mix is value added products or 15% whatever is the number, it could just help us to understand okay, this is improving trajectory for the company going forward.

Abhishek Mandawewala: So before I answer that question, I would first like to say that value added for one company might mean commodity for another company. So may be there are some of our competitors what they consider value added actually we consider commodity and then there are some other competitors you know globally we might consider it value added but they consider it to be a commodity. So it is a very subjective thing but I would say that genuine innovation products, products which we have and nobody else has, right now less than 5% of our total turnover is coming from such kind of products.

Prerna Jhunjhunwala: Okay. And sir, I understand the thing that you said that a value added product might not be value added for other players. But we are working on a value added trajectory from our company point of view. From our company point of view how much that would be?

Abhishek Mandawewala: So said I genuine innovation products from less than 5% of our turnover today.

Prerna Jhunjhunwala: And what is our vision for this number to take forward?

Abhishek Mandawewala: I can give you a vision but it will be purely a…

Prerna Jhunjhunwala: Wish list.

Abhishek Mandawewala: Yeah, it will be a wish list so, I do not want to give you any wish list like that so that once we feel that we can achieve something then we will come out and we can say… right now we are too early, it is too early in the stage we have just really started working on some things we do not know how any will be successful we do not even know if anything will be successful so, it is too early right now to say anything. All I can say is that our company is working towards that.

Prerna Jhunjhunwala: Okay. Sir, question would be on nylon. In nylon you are making nylon 66 also only nylon….

Abhishek Mandawewala: No, we are only making nylon 6 right now we are not making nylon 66 and in the immediate plans we do not have any immediate plans to make nylon 66, we are only making nylon 6.

Prerna Jhunjhunwala: Okay. And sir, how are the spreads in these products right now and commodity products. How are the spreads moving for nylon products as well as your polyester based products are they stable are they difficult right now?

Abhishek Mandawewala: See that is a very generic question, product to product it defers and day to day it defers. I can tell you one thing for sure, that in the top-line the trend is downward and you know in any commodity product if anybody sees margins they will always try to add capacity and enter. The long-term it is always going to be downward so it is our job to actually come up with something new and differentiate otherwise you know there is always going to be addition of capacity and people are always going to add new lines and you know that is going to take the trend downward so, always there are some products where there are entry barriers and it is not easy to add a customer and from the customers point of view also there are switching cost. So our endeavor is to focus on those kind of segments and hopefully over there the trends remains it does not go down ward. But our business is not like you know FMCG or some brands where we can start increasing prices at our whims and fancies unfortunately, our business is not like that.

Prerna Jhunjhunwala: Okay. Because what I use to understand from POY cycle was that these is fixed cost of PTA **MEG** that happens globally and there is conversion margin which everyone gets tin **POY** similarly with PTA there is a conversion margin which everyone get. So that stable margins at least minimum are there otherwise people stop producing. So there is nothing like that in your product mix, nothing like that?

Abhishek Mandawewala: No, actually we are not in those kind of segments where the customer is saying that over the PTA and MEG so much you will get for your, we are in those segments actually we cannot afford to compete in those segments. So the players in those segments are very large and you know all of them they are very large and they have very low cost structure and we cannot compete with them actually, we will not even be able to breakeven at gross margin level if we try to compete with them.

Moderator: The next question is from the line of Kashyap Jhaveri of Capital 72 Advisors. Please go ahead.

Kashyap Jhaveri: You highlighted about value added products being 5% of the turnover currently. Would you be able to quantify Y-o-Y growth for FY'16 in value added products and BCF?

Abhishek Mandawewala: I would not be able to do that and let me just make a correction, I did not mean to say value added products, I mean to say innovation, products, so innovation products are less then and they are not 5% they are less than 5% of our sales. I wanted to say that, I wanted to give the message that right now it is negligible quantity but we are working towards increasing that quantity and the specific question about BCF and vale added it is a very difficult for me to comment.

Kashyap Jhaveri: Okay. And in terms of our CAPEX you know how much still pending?

Abhishek Mandawewala: So as I said, from the still over CAPEX about Rs. 30 crores is still pending and from the new Rs. 75 crores is still pending.

Kashyap Jhaveri: From the old Rs. 30 crores and new one will be about Rs. 75 crores.

Abhishek Mandawewala: Correct.

Kashyap Jhaveri: The new Rs. 75 crores would include again some of the innovative products also? Or this is largely innovative products only?

Abhishek Mandawewala: No, the new CAPEX most of it will go towards debottlenecking infrastructure so, creating new building and lab equipments et cetera, et cetera, so to create new products you do not need CAPEX, actually you need to create the new products and many times the same lines can actually be used you do not need to make a new investment or something like that.

Kashyap Jhaveri: Okay. And in terms of nylon 6 this Anti-Dumping Duty, which is coming up for renewal a year later have any talks begin on that the ministries?

Abhishek Mandawewala: Yeah, I guess the process is ongoing this happens ever four years or five year and for the last ten years, it has continued and we are hopeful that it will continue but you never know about what is the mood and what is the intent and what is the current situation, everything needs to be presented by facts and figures just because you wish something it might not come true. We have all reason to believe that there is dumping going on from many of the countries where there is Anti-Dumping Duty despite these dumping duties actually you believe it or not products are coming into India and impacting profitability of players there are couple of players who are heavily loosing out on profitability and they are making losses. So despite the Anti-Dumping Duty products continue to come I hope that we hope that the dumping duty will continue but I do not want to venture out and say that it will continue only time will tell.

Moderator: Thank you. The next question comes from the line of Nipun Gupta, he is an Individual Investor. Please go ahead.

Nipun Gupta: I just wanted to know where do you see the revenue going growing forward and how would be the revenue growing from here like what are the…. I just wanted to know how would be the revenue going forward as in how would the revenue grow from here what are the plans?

Abhishek Mandawewala: As I said Nipun, we are first of all, I do not give any guidance for the future what is going to happen in the future and secondly, we are more focused on quality of growth rather than quantum of growth you know our entire company's focus is on value added products and innovation products and you know on differentiation and until we are successfully achieve this and until we have confidence that we are doing something different as compared to competitors we only want to expand and increase capacity in those areas, we do not want to do it in any and every area so. And the other thing we do not give the guidance so, it is difficult for me to say what will happen 12 months or 24 months from now.

Nipun Gupta: And secondly, from when we will be start paying of the debt?

Abhishek Mandawewala: Again it depends on a lot of factors we right now we do not have any such plans whatever our repayments come although we make sure that we finish those repayments and the repayments are to the tune of Rs. 25 crores to Rs. 30 crores a year but beyond that it really depends on future cash flow and future projects and you know right now we do not have any strategic plans as such okay, by this year we want to pay off the debt or we have not had any such discussions in the company so unfortunately I do not have an answer for that.

Moderator: Thank you. The next question comes from the line of Prateek Chaudhary, he is also an Individual Investor. Please go ahead.

Prateek Chaudhary: Could you give me some color on the sales growth because as we compare your sales quarterly Y-on-Y growth to say other few other listed they seem to have been doing pretty well as against an average by us. Could you give some light on that?

Abhishek Mandawewala: As I said, our company is more focused on bottom-line and in hypothetical ideal case scenario if our sales top-line remains the same and our bottom-line continues to grow at the rate at which it is growing we would be very very happy. What is more important for us is EBITDA margins and EBITDAs and bottom-line as supposed to top-line so, if you notice our last three years number, in the last three years the top-line has actually not grown but the bottom-line has grown very handsomely so, that is a good situation as I said earlier until we are not able to find genuine opportunities where there is customer stickiness or where there is some differentiation or where there is some innovation or where we are doing something different as compare to our competitors or where we are competing with fewer players in that segment as compared to many players or where there are slightly higher and where they are sustainable. We only want to grow to that extent, we do not want to have a dash at growth and then regret later on why up so much capacity.

Prateek Chaudhary: If we directly compare your though there may be some differences in the product segment but if we do a rough comparison between you and say Filatex and Banswara so like these guys are probably of your size and have grown long with margins is there something very different happening between them and you?

Abhishek Mandawewala: See I do not know Banswara I do not think they make filament yarn they are slightly different company they are not in our product segment. Also Filatex while they make filament yarn actually not even a single may be less than 3% of our total turnover we might be competing with Filatex they are in a completely different segment actually they are in this polyester FDY segment and you know something like that they make POY and FDY and all this commodity mainly more mainstream I mean I should not use the commodity I do not know what they do. They are more in the mainstream market and their product ranges actually we do not compete much. And they have done very well actually they have done very well. They have recently come up with the new expansion or so I hear and they have done very well so that is all I can say.

Prateek Chaudhary: So we are not really competing with then in terms of our products?

Abhishek Mandawewala: No, less than 2% or 3% of our product mix we are competing with them.

Moderator: Thank you. The next question comes from the line of Mitul Mehta of Lucky Investment Managers. Please go ahead.

Pritesh: This is Pritesh here. I joined the call, can you give some sense on the volume growth which you would have achieved in FY'16 that is one second for the quarter four is there a play of mix and margins?

Abhishek Mandawewala: I do not understand the second part of your question?

Pritesh: The margin expansion in quarter four, is there any mix element to play so you would have a richer mix in quarter four?

Abhishek Mandawewala: Absolutely, so may be you miss the first part of the call, the expansion in the margin is a result of few things. Number one there is slightly better product number, number two there is also some impact as a result of better efficiencies at the plant, so couple of these factors they have come together and helped us to increase the margins.

Pritesh: Say mix so mix has to be in favor of products like BCF or innovative products is that the mix that you refer to?

Abhishek Mandawewala: So I will just say high margin products versus low margin products I think to make it very simple.

Pritesh: Abhishek, you think there are further levers to improve the margins from here also?

Abhishek Mandawewala: Again, this is a forward-looking statement, our endeavor is that our endeavor is that if we are able to if we are able to improve our product mix and if we are able to make higher quality and better products in better segments where there is customer stickiness and where there is customer loyalty et cetera, et cetera, there is potential to do higher margins so, you can see some of our competitors in India as well as globally they are able to have better margins in our and you know they are doing in terms of margins they are doing much better then us and we hope that we are able to also increase our margins. But I want to clarify here and make a disclaimer that hope does not mean that we will, but needless to say that our company is working towards it.

Pritesh: Sir, is Q4 sustainable margin and a mix at least you can tell us on that lines?

Abhishek Mandawewala: I do not know unfortunately Pritesh what is sustainable and what is not sustainable, I cannot predict the market situation four quarters - eight quarters from now. But again I can only say that our endeavor is to ensure that we keep adding higher margin products replacing lower margin products you know we improving our operational efficiencies and as a result of that hopefully we will be able to maintain the margins but again very difficult to say what will happen four quarters or eight quarters from now.

Pritesh: The mix in these value adds and higher margins at what pace has it changed in the last three years 2014, 2015, 2016 percentage mix?

Abhishek Mandawewala: We do not like that percentage but there are few products which gave higher margins and we have increased the quantities of those products and you know that has resulted in better margins but again let me give a disclaimer or let me make a comment that many times the high margin products they might be high margin but they might to be high margin tow years from now. So it is a continues process and we need to keep always remain one step ahead of the curve. And if you are able to do that then the margins will remain if we are not able to do that then the margins will come down.

Mitul Mehta: Abhishek, hi, this is Mitul. Abhishek, you must have done some internal assessment as to where you want to be five years from now in terms of the innovation index. Let us say currently we are at 5% so even you know this is what you have been working and obviously you know what sort of products you have in your pipeline I mean these sitting outside you know not knowing directionally as to where the business is headed you know if you can give us some color as to let us say five year from now I am not saying tomorrow or one year from now. Five years now where what sort of innovation index you will be comfortable, let us say 20% or 30% or 25 I mean, what sort of innovation index you would be comfortable?

Abhishek Mandawewala: Seee Mitul again someone asked that question before and couple of things I will say is that having a wish is one thing and you know doing it in actual is another. So I can have any wish list and we have internally we are keeping, we were not even measuring and we are in the process starting to measure this in the first place and you know once you start measuring you will of course we do not need to measure to start acting there are lots of initiatives that are going on within the company in order to improve the product mix. With any new product development there is a huge amount of uncertainty and you might think from your end that it is bumper product and you might go out to the customer extremely excited but you know by the time the customer accepts and he puts it in his product range to convince him to change from what he is using to a new product which he has never seen before to convince him of the advantages it is a very long and time consuming process and very uncertain process you do not know whether you will succeed or you will not succeed so we have tried also many things in the past many times it has not succeeded couple of instance it has succeeded so I do not want to figure of what is the figure that we want to do because it will just be a figure I do not know whether we will get there so, while we continue to work towards that direction within the company so our entire focus and emery most of the people inside the company they are focusing in this direction, but I think it would be wrong for me to give a figure that five years from now which is also a very very long period of time we will be here. It is very difficult to say that, this is an extremely uncertain. It is a very uncertain field, you know uncertain process innovation is not something that you can predict that okay by 2020 we will have we can set target for ourselves but you cannot say for certain this is what we will achieve or this is what we are confident of achieving, you never know what will happen but at the end of the day we know our company everybody in our company continues to work towards that direction so hopefully we will succeed in our endeavor.

Mitul Mehta: This apparel project by when we should have some light on I mean would you be able to discus I mean by when?

Abhishek Mandawewala: We are continue to work we have not come up with any conclusion, so there are some more data points that we want to gather before we take a decision and we do not want to make any hasty decision on this project. So we want to make sure that it is in the long-term best interest of the company and until we are not certain so, right now we do not have anything to say Mitul, but may be in next three months hopefully we will have something.

Mitul Mehta: Completely new segment and this will obviously be in a completely new location so to say a Greenfield.

Abhishek Mandawewala: Correct. But let me clarify we have not yet taken the decision that yes, want to do it, it is still under debate right now.

Moderator: Thank you. The next question comes from the line of Kashyap Jhaveri from Capital 72 Advisors. Please go ahead.

Kashyap Jhaveri: Just wanted to check what is the gross debt number including you know the current maturity of long-term debt and if you could explain your receivables in terms of domestic and exports what is the incidence between or what are the number of days in the debtors?

Abhishek Mandawewala: You have, what are the receivables, what is the…

Kashyap Jhaveri: Between exports and domestic how would receivable days will be different **1:03:19** and gross debt number also.

Abhishek Mandawewala: Gross debt you mean excluding the cash?

Kashyap Jhaveri: Yeah.

Abhishek Mandawewala: So the long-term debt is around Rs. 196 crores, I am talking as on 31st March and the LC acceptance is around Rs. 64 crores and balance Rs. 18 crores are short-term and various other obligation short-term obligation. So total Rs. 278 crores.

Kashyap Jhaveri: This is gross debt outstanding as of 31st March?

Abhishek Mandawewala: Correct.

Kashyap Jhaveri: And receivable days. This number in last year is the Rs. 276 crores that you gave would have been Rs. 200 crores in the pervious year FY'15 because FY'15 I am getting a gross debt number of about Rs. 198 crores so…. Is the LCs which are sort of outstanding so they would not be our debt right?

Abhishek Mandawewala: No, so there are part of the payables so, last year if you notice it was around Rs. 58 crores and the long-term borrowing was around Rs. 102 crores and you know we had also an inter corporate deposit which we have paid off. So Rs. 125 crores was let us say long-term and then there was also very high short-term borrowing of around Rs. 45 crores and there was around Rs. 50 odd crores of LCs so total it was around slightly more than Rs. 200 crores.

Kashyap Jhaveri: Right, got it. And receivables in terms of in terms of domestics and exports?

Abhishek Mandawewala: Can I get back to you on receivables number, I made a note on that.

Kashyap Jhaveri: So broadly number of let us say receivable days in exports would be how much I mean the figure will also do and in domestic could be how much?

Abhishek Mandawewala: Okay. So I have this number now. The total receivables is around Rs. 52 crores from which Rs. 30 crores is exports.

Moderator: Thank you. Ladies and gentlemen, due to time constraints that was the last question. I would now like to hand the conference over to Mr. Abhishek.

Abhishek Mandawewala: Thank You all for your participation and see you in our next quarter updates.