AYM Syntex Limited
Q1 FY 2018 Result & Other Business Update Conference Call
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Management:	Mr. Abhishek Mandawewala – Managing Director & CEO Mr. Himanshu Dhaddha – Chief Financial Officer Mr. S.M. Khire – Director Operations

Moderator: Ladies and gentlemen, good day and welcome to AYM Syntex Limited Conference Call to discuss the Q1 FY2018 Result and Other Business Update. On behalf of AYM Syntex Limited, we have with us the key senior management including Mr. Abhishek Mandawewala – Managing Director & CEO; Mr. Himanshu Dhaddha – CFO and Mr. S. M. Khire -- Director of Operations. 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. In case you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Himanshu Dhaddha. Thank you and over you to, sir.

Himanshu Dhaddha: Thank you. Good evening, everybody. I welcome you all to the conference call of AYM Syntex on our company's behalf. Let me begin the conference call with a brief update on Q1 FY 18 results which is in the public domain as well as on our website. This is the first time we have published the results as per IND AS. This quarter was tough as far as the financial performance of the AYM Syntex is concerned. AYM posted revenue from operations of around Rs.215.7 crores for the quarter ended 30th June, a flat growth over corresponding quarter last year and 3% as compared to the quarter ending March '17.

Implementation of GST, one of the landmark reforms, has also posted some temporary transition challenges with sales getting affected during the month of June and it continued in the month of July too. Cost of raw materials consumed at 58% is on a higher side this quarter as compared to 54% in the previous quarter. As highlighted in the last few quarters, this is mainly on account of loss of consumption of higher value inventory in case of Nylon as against the subdued sale prices. Moreover, the margins also dipped in some of the product categories.

EBITDA for the quarter is at around Rs. 15 crores, 7% of net revenue as compared to Rs. 32.4 crores which is 15% of net revenue in Q1 last year. EBITDA per ton was also on the lower side this quarter as compared to the last quarter. It was at around 13,000 per ton as compared to 19,000 per ton in the previous quarter and 21,000 per ton in the same quarter last year. Profit after tax for the quarter ended 30th June is at Rs.0.7 crores as compared to Rs.14.4 crores in the previous year same quarter.

Coming to the Net Debt Position: Net debt figures including all those long-term liabilities, buyers' credit and suppliers' credit, vendor bill discount & net of all of the cash and short-term investment stands at around Rs.271 crores as of June 30, 2017. This has actually increased by Rs.25 crores in the current quarter on account of lower EBITDA and committed CAPEX which we had in this quarter. Current ratio is lower at 1.15 as compared to 1.26 in March '17. On the CAPEX side, the update is that on the project five out of Rs.76 crores, we have already spent around Rs.37 crores till Q1 FY 18.

With this information note, I am handing over to Abhishek for the Business Updates of Q1 FY 18. Thank you.

A R Mandawewala: Good Afternoon, everybody. This is Abhishek here. I will start with the Nylon business; move on to Palghar then BCF and then Polyester. In the Nylon business, raw material prices which were fluctuating pretty violently up till the last quarter have finally stabilized. But has slowly again started to inch upwards. Demand is however quite weak in the local market where majority of our sales in the Nylon segment is taking place. This is primarily on account of implementation of GST. Half of June, almost all of July and even August has been lost on account of high inventory in AYM because of the strike that is taking place in Surat. Of course, the strike has now started to ease and our inventories have started to come down but nonetheless it has impacted us in this month and the previous two months.

In the last quarter, overall utilizations have been ~75% and in the month of July-August in fact it has dropped to about 60% which is significantly low as compared to historical averages of the company. There was a fairly sizeable impact of higher rate raw materials which were purchased in Q4 as Himanshu explained earlier. Demand of course has started to pick up in the market after the GST implementation but I think we will reach the end of September until the utilization gets back to the normalcy levels.

On the positive side, in Nylon, some new developments and business has started on the export front. But we are yet to fully prove ourselves and get consistent business from the customers after the customer feels confidence in us.

There were certain incentives that we were enjoying until June 30th which have expired after the GST coming into play. These incentives were present in Nylon as well as Polyester. This impact will start coming in from this quarter onwards.

On the Palghar side, production was lower than the business plan target, again on account of customers going into wait-and-watch mode until the GST came into play but however in Palghar the demand pickup has been little bit more faster as compared to Nylon and I think from the middle of August onwards, we can assume that the business has come back to normalcy levels.

In the last quarter, I mentioned that sampling was taking place with some prestigious customers in Palghar. I am happy to announce that after 1.5-years, very prestigious accounts have been materialized, these are customers who are fairly reluctant to switch sources but over the last year, year-and-a-half we have put in a lot of effort, improving our word to these customers and they have finally given us a chance. There is a good potential for volumes in special products here. But again just like Nylon, we will have to prove our quality and reliability before the customer feels confident and the volumes pickup.

Lot of good work is going on to build strong quality systems to deal with accounts such as these and other accounts which might materialize in the future, we have built up a good management team in Palghar, recruitment has been one of the key areas of focus for us, and in Palghar area finally we can say that in terms of the manpower side we have made a fair amount of progress. Of course, impact of GST in Palghar in terms of the absolute price hike has been the maximum because Palghar product which was the dyed yarn product was earlier exempt of excise duty but now with the new GST regime coming into play, everything is at a playing field and hence all the Palghar business will have to come under the GST regime. So going from nearly 0% duty to 18% duty, in terms of the absolute impact it is the maximum, but of course this impact is the same for us as well as the rest of our competitors. So far more or less price pass-throughs have taken place.

On the BCF side, utilizations in the last quarter were lower than normal due to some internal operational issues which to a certain extent have been sorted out now. Some shifting of machines were to take place because of which some capacity was lost both in the months of May and June. By the end of this month, I think we should come back to normalcy level on the BCF side.

Order book is fairly healthy. New line of BCF has been commissioned for which the complete impact will come from this quarter onwards. Needless to say the capacity has been booked out and it will run at full utilization as soon as it comes into picture.

On the Polyester side, as I said earlier, the GST impact was there in terms of the incentive expiry. But apart from that I think business continues as normal and efforts of business development are ongoing even in this area.

With that I will hand over the call back for Questions.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the Question-and-Answer Session. The first question is from the line of Ritesh Gandhi from Discovery Capital. Please go ahead.

Ritesh Gandhi: Just a couple of quick questions; one is, is the high cost inventory that you have, now has it been completely utilized in Q1 or is there still impacts going to be there in Q2 as well?

A R Mandawewala: There will be some impact particularly in the month of July and maybe beginning of August too.

Ritesh Gandhi: After this quarter which again of course will have the entire GST impact, how should we think about steady state EBITDA in this business?

A R Mandawewala: Ritesh, I would not want to give any kind of future guidance, but it is something to be seen how the business will pan out once the normal steady state situation arises. As you know since last November business has not been normal, starting with demonetization and lower utilization, then going into the Nylon price increase, then the GST plus there is an impact of incentive on Nylon prices. After the dust settles, it will take maybe a couple of quarters before we will know where the business finally settles. I would not want to give any guidance at this point.

Ritesh Gandhi: You would expect it is going to be settled at the end of this quarter or you would expect another quarter after this also for stabilization to take place?

A R Mandawewala: Certainly this quarter July-August-September, we can certainly say that it is not a normal quarter. Maybe it takes a couple of good quarters before we can get to the normalcy level, it is yet to be seen but certainly I can say that this quarter will again not be a normal quarter because our utilizations have been significantly lower than our business plan as well as what we can actually do.

Ritesh Gandhi: Because your utilizations are low, it does not then make a sense to just produce more and then hold the inventory a little for next quarter?

A R Mandawewala: Not really because we can only hold limited amount of inventory and also it is not good to go overboard with these things and while some of our materials are make to stock but not everything is make to stock, there is also make to order component, for example, Palghar is entirely make to order which is where it is difficult to store the inventory. So it is not always practical. We were holding as of July 31st all-time high level of inventory which only now slowly and steadily in the last let us say a week or so has started to come down. So we cannot go beyond that.

Ritesh Gandhi: Effectively incentive going away after GST, how much would that impact in terms of EBITDA margin?

A R Mandawewala: I think depending on the volumes it could be monthly between 50 to 70 lakhs each month at the EBITDA level if you say Nylon and Polyester combined.

Moderator: Thank you. The next question is from the line of Kaushik Kona, an individual investor. Please go ahead.

Kaushik Kona: I have one query that is the promoter stake has reduced by 5% by November quarter I think so. Who is the promoter and how much of the quantities are floated?

A R Mandawewala: Promoter stake has not reduced at all, it is just that after the restructuring has taken place I think this was explained in one of my previous concalls, earlier this was part of Welspun Group and after the hiving off of the company into a separate entity, as you know there are two promoter groups in Welspun, the Mandawewala family owned 65% in the company and that 65% still continues, the 5% stake which was owned by the Welspun Group, that has been declassified as a promoter. So that has gone into as a public shareholding, there has been no stake sale by promoter at all.

Kaushik Kona: May I know how much of the debt we have to pay for long-term and short-term?

HImanshu Dhaddha: Currently, the net debt is around Rs.270 crores, term loan is around Rs.215 crores and rest is the short-term.

Moderator: Thank you. The next question is from the line of Himanshu Mahajan from Argha Investment Partners. Please go ahead.

Himanshu Mahajan: Sir, my question is regarding your product from Sarona. I was trying to analyze it but I am not clear. Can you tell me in which market are you trying to supply the BCF Yarn made through Sarona – is it in India or is it abroad?

A R Mandawewala: There is not much demand that we anticipate coming from India. I would like to clarify that at this point in time we do not have any business; we do not have any customers in the Sarona brand. We are still building up this business, we are working closely with DuPont as well as our customers to try and commercialize this product but the major demand will come from developed markets like USA and Europe and these kinds of markets for Sarona.

Himanshu Mahajan: Second question is what I do not get is in Europe and US market, we are already top player who are developing the same product, right, if I am wrong, please correct me?

A R Mandawewala: Absolutely, we are one of the few license holders of Sarona brand and certain applications we are allowed to sell in certain geographies, for example, there are certain applications for which we are allowed to sell in Europe, there are certain applications which are blocked for us in US. So it is an agreement that we have with DuPont which very clearly lays down which markets we are allowed to sell the product. So all those are part of our agreement.

Himanshu Mahajan: So that would be exclusively for you, not for someone else in US, not for Mohawk for example?

A R Mandawewala: Not necessarily. As I clarified in my last call, DuPont has other partners in these markets who also have their own territories and exclusivity. So all these are part of the agreement, but for the purpose of clear understanding we can say that we are not the only people to supply this product in any market apart from India let us say.

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

Dhaval Shah: I have a question on the BCF. So after the commissioning of the new line, we will have around eight lines of BCF. Am I right?

A R Mandawewala: Yes, eight lines.

Dhaval Shah: Out of that, how many will be for special products, so you mentioned five to six lines are for special products in the last call, so even this I should assume will be for a special product?

A R Mandawewala: A better way to explain it would be that between five and six lines are actually going to service customers, where there are certain entry barriers, where there are certain approval processes in place, that are required for a player to get approved. This process might take anywhere between a year to a couple of years, if you are extremely lucky, it might take somewhere maybe 9 or 10 months, but typically it would take anywhere between a year or two to get approved in these customers, and sometimes more depending on the customer inclination, so even the new line will be running on such business itself.

Dhaval Shah: So in this business whatever CAPEX we do, when you have assured business and then you had a line or how does it happen in this?

A R Mandawewala: It depends on the order backlog and also some future commitments that we might provide to customers depending on that we decide to increase the capacity.

Dhaval Shah: So for adding one line which you added, how long did it take for you?

A R Mandawewala: At least 12 months.

Dhaval Shah: You also mentioned that there were some technical issues in the BCF because of which you lost some sales in May and June. So was there some technical issue from our end or what was the problem exactly?

A R Mandawewala: As I said, the operational issues were there, some of the lines were shifting between one location to the other within the same campus which we had to do to prepare the company for the future. So on that account, we lost some capacity in May and June.

Dhaval Shah: Our CFO mentioned in his initial commentary that margins have dipped in some product categories apart from the inventory loss. So how should I understand this – increase of competition led to lower sales realization or what led to the margin drop?

A R Mandawewala: The major factor what Himanshu is referring to is basically in the Nylon business which we have been trying to clarify since last several quarters that there has been a significant increase in competition in this area. New players have come in and also because of higher stronger competition, the overall level of let us say the margins over the raw material price have all come down. As I said earlier, the Nylon business is fairly low entry barrier kind of business with very little approvals, particularly in the local market like in Surat there is not much approvals or anything like that, so you can add capacity and you can start selling, it is like a commodity. So supply and demand will decide the margin level and on that account actually the margins have come down on the Nylon side.

Dhaval Shah: So the overall vision which you have for the company, is that you want to shift to the value-added in each and every segment, so the same case is in Nylon also. You mentioned there is some positive development with regards to export business for the Nylon segment. So this I understand should be very small given the way margins are getting impacted in the segment, am I right?

A R Mandawewala: Absolutely, as of now it is pretty small. I am trying to mention this again and again that it is a kind of business. where our customers are reluctant to switch over. Unless there is a problem that takes place, they are also reluctant to switch over to other customers. So this kind of business takes a long time to build, it does not come in one day.

Dhaval Shah: So out of this, Nylon, Palghar, BCF and Polyester four things, where do you see the migration to more value-added products is happening at the rate which you had expected?

A R Mandawewala: In all four areas, we are working on this front. In terms of the maturity level, I think BCF has progressed the most, and then I would say the Polyester business after that, then the Palghar business, and then finally the Nylon business.

Dhaval Shah: So possible for you to share the percentage of business in each division, how much has it matured in terms of value-added category?

A R Mandawewala: So as I said in BCF, out of original seven lines, between five and six lines are running on these kinds of customers, the eighth line will also be added on customers with stringent requirements. In Palghar as well as Polyester as well as Nylon at this point in time, the share is insignificant i.e very small.

Dhaval Shah: So BCF should be around 35%-40%?

A R Mandawewala: I would say, it is more than that, six lines out of eight lines.

Dhaval Shah: Last question on your capital expenditure. Rs.76 crores was the target for FY'18?

A R Mandawewala: No, as we had said in the earlier calls, this was the Project-V and at the time that I had introduced this Project-V, it was a 1.5-2-year kind of a project and that is continuing. So we are yet not through with it, we are continuing to incur CAPEX on the Project-V even today.

Dhaval Shah: So in Q1, you spent Rs.36 crores?

A R Mandawewala: No, no, overall in Project V till date.

Dhaval Shah: So Q1 how much have you spent?

Himanshu Dhaddha: In the Project-V in Q1, we have spent hardly Rs.3 crores till now.

Dhaval Shah: Overall at the company level, you will be spending how much in FY'18?

A R Mandawewala: Right now, we have not firmed up exactly the CAPEX plan, I think we are currently working on Project-VI, shortly very soon we should be able to announce what the Project-VI will look like. The earlier projects are now complete. Combining Project-V and Project-VI, by next quarter probably we will able to give a better picture as to what the CAPEX will look like.

Dhaval Shah: The tax rate, you will be in MAT, right?

Himanshu Dhaddha: Yes.

Moderator: Thank you. We have the next question from the line of Manmohan Toshniwal, as an Individual investor. Please go ahead.

Manmohan Toshniwal: Hi, Abhishek. You mentioned about order book being healthy. Could you please provide further details on whatever order book looks like?

A R Mandawewala: I am sorry, at this point, we cannot provide details of our order book for competitive reasons.

Manmohan Toshniwal: About the Nylon inventory, in the last call you had mentioned that the prices are getting bottomed out and now we again see from $1,800 it has again started rising. How far where we can basically bottom out saying in the next few quarters now we have inventory in stock?

A R Mandawewala: Rather than giving the inventory, I will say that we have had the impact of higher cost raw material in the month of July and we will have it in the part of August also, and after August, regular price raw materials will start coming. Generally, we keep an inventory of about one month.

Manmohan Toshniwal: That should start offsetting with the prices rising back, is that a fair assessment?

A R Mandawewala: Yes, chip price normal levels, we will start seeing in the month of August.

Manmohan Toshniwal: Even the sluggishness in the next couple of quarters in terms of business coming back to the normal, should we expect again an increase in the net debt level in the next couple of quarters?

Himanshu Dhaddha: Certainly, we can expect that there will be some increase in the net debt level.

Manmohan Toshniwal: Is there any plan around that any figures we keep in mind?

A R Mandawewala: No, we do not give any guidance, but at this point in time, as Himanshu explained the net debt is around Rs.265 crores to Rs.270 crores.

HImanshu Dhaddha: So once this project VI is being finalized, we will be able to get a clear picture of what CAPEX we would be doing every quarter and hence what would be our the net debt positions by every quarter or at the end of the year.

Moderator: Thank you. We have the follow-up question from the line of Ritesh Gandhi from Discovery Capital. Please go ahead.

Ritesh Gandhi: Abhishek, right now, your utilization levels are reasonably low because of the entire GST implications, etc., and yet your like CAPEX plans continue to be there and reasonably aggressive. Is there any indication as to how you are seeing the prospects of the business and your order book over the next 18-to-24 months?

A R Mandawewala: Money is being spent today but the plan took place almost a year, year and a half back. So that is the first thing. The second thing is I certainly not want to give any kind of guidance, but CAPEX is taking place in two areas viz when we have achieved the quality of business that we want, by looking at several factors, the quality of customers, the quality of products that we are making, the sustainability, so keeping all those factors in mind, when we feel satisfied, only then we will grow the capacity. The other area where the CAPEX takes place is to build up strength in the business which will allow us to cater to these kinds of customers.

Ritesh Gandhi: In terms of our return expectations on your CAPEX, any sort of internal hurdles you have, and given the actual market, I mean, you see now, are those hurdles do they still remain the same or you think there could be downside risk to that?

A R Mandawewala: We can have our own internal plans, but of course these kind of events they create a lot of fluctuations, but internally, we try and keep this number of 20%-odd for our ROCE numbers internally, that is what we try and target, but then it is very hard to look at that in isolation because each CAPEX they come in cycles, they come in phases, there are certain parts where you need to invest before and then certain parts where you need to invest later. So overall over a long period of time, we always hope that 20% is a benchmark that we hope and talk about internally, but clearly you can see from our numbers so far, unfortunately, this year we have not been able to achieve that.

Ritesh Gandhi: Just the last question is actually around the state right now as we are entering end of August and early September, are you seeing a stabilization where utilization and all has increased and is getting back to normal or do you think is still taking a quarter or so before it really gets there?

A R Mandawewala: As I said, at least a couple of quarters, we will lose because there are lots of factors -- once the lines stop, you cannot start all of them at the same time because it is a very cumbersome process. Secondly also, when the line starts, it does not start producing a grade quality on the first day. So there is a stabilization time where downgrades are produced, we have to sell those materials at lower prices. So all those impacts come into picture when as soon as the line stops. So I will say that we will lose a couple of quarters before the normalcy level comes back. So I think after demonetization, in the absence of any further major events, hopefully, it will take probably, a quarter or two at least to come back to the normal level of utilization that we were there before this demonetization.

Ritesh Gandhi: Is there like Q4 of this year is where you think it would be slowly moving towards mobilization?

A R Mandawewala: Hopefully in Q4, things will start getting normal.

Moderator: Thank you. We have the next question from the line of Rohit Pothy from Marshmallow Capital. Please go ahead.

Rohit Pothy: So I was feeling that the industry has gone through last year with demonetization and GST. So your customers, have they been consolidating their vendors and focusing on procuring their goods from specific customers, have you gained or lost any such customers that way?

A R Mandawewala: I am not sure I can comment on that. As such I do not think there is any major difference. I think the GST has impacted everybody, some little bit more, some little bit less, but almost everybody has been impacted. At the end of the day, the Surat market was on strike, everybody could read it in the papers, so everybody has been impacted. So some people might have decided to run their lines, build up the stock, some people decided to close their lines early, but at the end, overall sales have come down for almost everybody.

Rohit Pothy: Second question from the status of the Welspun business and in addition to this, have we lost any major customers like Welspun?

A R Mandawewala: Not that I am aware of. That also business continues as of now. That is a future planned CAPEX at their end which will probably take some time to come on stream. Apart from that, I do not think so.

Rohit Pothy: You laid out your vision for the business as a whole quite clearly. I was just curious internally, is there a time period you have set for yourselves for each of this individual lines, just as an example, you mentioned that BCF your asset maintenance doing better than the Nylon business. Is there a time period or a time frame that you have set for yourselves where you see, okay, the Nylon business might not be working out as planned and let us shift and focus more into BCF and discontinue Nylon altogether, anything like that?

A R Mandawewala: No, I do not think we can take such decision. I think there is potential and opportunity in each of the segments. It is a question of us working hard to get there. So that hard work was done in BCF. Now, we need to do that same hard work in the other areas also. So I do not think there is any need to write off any segment. Every segment for us is important and it can contribute equally, all the segments can contribute towards the top as well as the bottom line.

Rohit Pothy: I have been assuming that there is a R&D team associated with each line of business catering to that particular segments for developing your products?

A R Mandawewala: Absolutely.

Moderator: Thank you. We have the next question from the line of Rohit Balakrishnan as an individual investor. Please go ahead.

Rohit Balakrishnan: So I just wanted to understand you spoke about in your Palghar business you have got prestigious customers. Can you talk a bit about that and just explain that a little bit more?

A R Mandawewala: I cannot give too many details, all I will say is that these are very tough customers, the internal systems have to be robust beyond measure and it is not a typical customer that we do business with on a regular basis, the requirements are extremely high and it is not easy to service these customers, our systems need to be totally at par. So some of the works that has gone in the last year, year and a half has been on this account so that now we should be able to do this business smoothly. Even these customers, they visited our plant, they have been convinced that we are capable enough to deal with them and we are capable enough to meet their stringent requirements, only then they have started to place orders. So samplings and trials and plant visits have been taking place for the last year, year and a half, but we are yet to prove, but I can certainly say with the work that we have done over the last year, year and a half, two years, we are in a much better position to service these kinds of customers now.

Rohit Balakrishnan: So, you mean you will not be in a position to name these customers?

A R Mandawewala: I am sorry, I will not be able to do that.

Rohit Balakrishnan: So you have been taken as an additional vendor or you have replaced somebody, what has happened there?

A R Mandawewala: Some of the programs that the customers are giving us a chance on their new programs, some of the programs, some of their existing vendors have been replaced in some cases, in one case, it was from Taiwan where we have been replaced. So it is a mix of both.

Rohit Balakrishnan: This is more like the volumes will ramp up if we do well?

A R Mandawewala: If we meet the requirements and demands then the volumes will certainly ramp up.

Rohit Balakrishnan: What are the KPIs, repeatability in terms of consistency of or is it more around something else?

A R Mandawewala: Quality, consistency of deliveries, issue-free supplies, consistent innovation, so it is a package of various factors, but I have to put one word to it, I would definitely say 'Reliability' or may be 'Consistency' that is the key thing here.

Rohit Balakrishnan: Assuming if things go fine with these customers, would you say that the potential in these two business can significantly alter the quality of the Palghar business?

A R Mandawewala: I do not think it is one or two customers that will do the trick. The reason why I mentioned this in the con call today is to just throw some light on the fact that while some of these things might not be seen in the bottom line with immediate effect, but nonetheless the progress is happening underneath the ground. So you might not be able to immediately see it in the results, but if the volumes ramp up and we are able to consistently supply, then the word spreads very easily, and there are other customers like them who would be interested to work with that. Overall, over a period of time that slowly and steadily the profile of the customers they start to change. That combined effect comes into place, and one fine day, whenever that is it might be seen in the results. But it is not something that one customer can change the entire picture or game, but it is a combination of various things that will lead to the profile changing.

Rohit Balakrishnan: So you mentioned that the BCF is in terms of trajectory and in terms of quality is much better than the other three segments. So let us say, there is something like what has happened in the Nylon segment where raw materials have fluctuated so much. If something similar happen in the BCF space, do we have the ability to pass on these prices to the customers even albeit to the lag?

A R Mandawewala: Yes, certainly, there will be some lag, but with many of our customers because of the close relationships that we have with them, many of them we have pricing formulas on which we work where any up or including down, it goes through automatically. So even when it goes down, we automatically pass on the price decrease and when it goes up, it is a formula-based kind of business that we try and do it here.

Rohit Balakrishnan: Most of the incremental business, if not say what is similar kind of things would be there with respect to raw material?

A R Mandawewala: I would say that incremental business will be on the same high quality kind of customers who do not switch over their supply base very easily. You have an opportunity to work very closely with them, hand-and-glove to support them for their requirements and build up a strong relationship, in some sense, there is an inter-dependence, it might be very tiny, but it is unlike the Nylon business where the customers they switch sources at the drop of a hat. I am sure there are customers like that on the BCF side also, but typically, the stringent quality of their end customers, they are always wary of continuously switching sources. So generally, the relationships are much stronger and long lasting as compared to let us say commodity business like Nylon. The other thing is, the kind of quality requirements that these customers expect everybody is not able to meet them. So lot of work needs to happen internally in any company, robust system need to be created so that these kinds of demands can be met. So all companies do not have this. So in an easy business, let us say, that the prices are, most fluctuating. So for example, the Nylon business may be Rs.2 to Rs.5 if there is someone cheaper, because their end customers, they are not so stringent in terms of quality, they find it very easy to change the sources, whereas some of the customers, may be these customers in Palghar, for example that we have developed and some of the customers that we are trying to develop in Nylon as well as in Polyester as well as in BCF, maybe they have a different mindset and different way of operations, their demands and their end customer demands are totally different.

Rohit Balakrishnan: Just wanted to understand, out of our revenue of around Rs.800-odd crores that we have, would you be able to split these four segments -- BCF, nylon, Palghar and Polyester?

A R Mandawewala: I know every call I am being asked this question, but when we are ready to talk about these numbers, we will certainly share, but at this point we are not ready.

Rohit Balakrishnan: Last quarter, I think you had mentioned about something in solution dyed Nylon business, right?

A R Mandawewala: In BCF, we have started some solution dyed Nylon products.

Rohit Balakrishnan: So that was into BCF business?

A R Mandawewala: Yes, that is in BCF.

Rohit Balakrishnan: For that there are very few people in the world if that is what I remember?

A R Mandawewala: Yes, there are other players, it is not like we are the only people making it, but as compared to the BCF business that we have and even more exclusive group as compared to the current BCF business that we have and here customers are extremely wary, It is a very difficult product to manufacture and not a lot has to go wrong or not a lot has to wary for things to go wrong. So it is certainly not an easy product to manufacture.

Moderator: Thank you. We have the next question from the line of Dhaval Shah from Girik Capital. Please go ahead.

Dhaval Shah: Abhishek, you mentioned your focus has been recruitment for the Palghar unit. Can you brief us what kind of recruitment you have done in terms of what sort of capability the people have and so what is the situation little bit on the recruitment?

A R Mandawewala: On the technical side, fairly new team has been built in Palghar and we are helping these people across industries and companies, people with the right mindset, attitude and capability to be able to deal with the kind of complexities that will be involved in dealing with high quality customers.

Dhaval Shah: So they are on the marketing or the production side?

A R Mandawewala: No, on the production side.

Dhaval Shah: So basically to customize the products as per the needs of the customer?

A R Mandawewala: Yes, absolutely, one is to be able to develop new products but also to be able to maintain the consistency and reliability that is expected by these customers.

Dhaval Shah: The new customers which you have got some conversion from the sampling to now sales, what is the product application for your end customer of your product?

A R Mandawewala: At this point, I do not want to share that, but I can say that it is a yarn dyed product which is being made in Palghar.

Dhaval Shah: In the last concall, you had mentioned you had some problem at Palghar unit because of the power problem. So has that been sorted out?

A R Mandawewala: Actually we were buying some power through open access, which due to some changes and regulations, it became unviable, so our power cost drastically increased, there was no power problem. But this quarter for your information, we have taken some steps and hopefully from let us say next month onwards, we should have some kind of advantage in cost again.

Dhaval Shah: Last call you had said the margins are muted at Palghar because one of the reasons was power cost increase?

A R Mandawewala: Absolutely, some of that increase has been again negated from next month onwards. So we are trying to find some other solutions in order to bring down this cost.

Dhaval Shah: So other solution to be on your production side as to how to reduce consumption of power?

A R Mandawewala: Of course, that work is going on simultaneously, but the overall rate of power has come down.

Dhaval Shah: So you have changed the source of power?

A R Mandawewala: Not entirely but partly.

Dhaval Shah: So if not from the open access grid, then which are the other way to…?

A R Mandawewala: I think we can leave that for another time.

Dhaval Shah: Can you give the volumes sold and the EBITDA per ton for this quarter?

HImanshu Dhaddha: Yes. EBITDA/ton as I said in my earlier discussion is around Rs.13, 000/ton as compared to Rs.19,000/ton in the previous quarter and Rs.21,000/ton in the immediately preceding quarter. Volumes is around Rs.11,300 MT in this quarter.

Moderator: Thank you. We have the next question from the line of Pujit Agarwal, individual Investor. Please go ahead.

Pujit Agarwal: Hi, Abhishek. So I wanted to understand your BCF business a bit more. Is the applications of BCF mostly in carpets and rugs; understanding is correct? and most of these products are actually exported. So if you could tell me like how exactly do you expect longevity in your growth -- is India giving market share in this year production?

A R Mandawewala: No, our business is not just in India, our business is all around the world, and as I said earlier, the way for us to compete here is to try and make more special products and to try and work with customers who have higher order needs when it comes to quality and consistency.

Pujit Agarwal: So correct metric to track your business quality would be increasing exports in BCF particularly?

A R Mandawewala: In the BCF side, certainly the export customers expect more from us in terms of quality and consistency as compared to the Indian counterparts. That could be one way to track it, but it would be entirely accurate.

Pujit Agarwal: So I also wanted to know what percentage of your sales, I know, it would be pretty hard to tell like, what percentage of your sales goes to your direct end customer, end user and what percentage of your sale actually goes to a trader or the middle man, I am talking about the entire business in general, like you have four production lines like just in terms of business quality I want to understand?

A R Mandawewala: It is difficult to answer that question but certainly I will say that in lot of areas, even though we might not be selling to a trader but we might be selling to an end customer through a middle man. So while we will be in direct touch with the customer and the dealings be happening directly, but maybe there is in some cases, an agent involved, but there is a portion of business that goes through traders, but just because you are selling to a customer directly it does not mean that the quality of business is higher.

Pujit Agarwal: You continuously keep talking about innovation. So like if I am right, source of innovation is the market that you deal in, right?

HImanshu Dhaddha: Absolutely.

Pujit Agarwal: So, it must be the feedback loop that you are setting in your mill that is going to help you create the final value?

A R Mandawewala: Absolutely.

Pujit Agarwal: If you could just describe a few steps or few initiatives you are taking to strengthen the feedback loop and also comment on your distribution channel that would be easily helpful?

A R Mandawewala: In terms of the R&D process, if you refer to some of my calls, I have spoken pretty elaborately on it. In terms of the distribution channel, as I said we have a mix of agents, traders as well as direct customer base through whom we try and build business, spread across India as well as all around the world. So we have a capable sales and marketing set up to deal with our customers.

Moderator: Thank you. We have the next question from the line of Manmohan Toshniwal, as an individual investor. Please go ahead.

Manmohan Toshniwal: Abhishek, previously in one of the con calls you had mentioned some of the businesses in Turkey and Middle East getting impacted. Has that come back to normalcy?

A R Mandawewala: Yes, I think that was around 3-4-quarters back if I am not mistaken, and there was political instability in Turkey if I remember correctly, and there was a lot of disturbance, I think our Palghar business was particularly very badly impacted, but since then things are normalized.

Manmohan Toshniwal: Will you be able to provide us on your export front, what has been the breakdown of your sale with domestic markets and exports?

HImanshu Dhaddha: Basically, in this quarter, 27% of the sales is export sales as compared to 21% in the full of last year.

Manmohan Toshniwal: In terms of the volumes, you mentioned 11,000 MT for this quarter. What was the previous quarter as well as previous year if possible?

HImanshu Dhaddha: So March was actually around same, 10,890 tons and last year same quarter was around 15,000 tons.

Moderator: Thank you. We take the next question from the line of Rohit Balakrishnan as an individual investor. Please go ahead.

Rohit Balakrishnan: So I just wanted to know, what was the cash flow from operations in FY'17 that we made?

HImanshu Dhaddha: FY'17 basically, our EBITDA was around Rs.100 crores, cash flow from operations I would say it is around Rs.40 crores.

Rohit Balakrishnan: What was the export for FY'17?

HImanshu Dhaddha: As in percentage, it was around 21%.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for their closing comments. Thank you and over to you.

HImanshu Dhaddha: Thank you very much everybody for attending the conference call.

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