AYM Syntex Limited
Q3 FY2016 Earnings Conference Call
February 15, 2016

Moderator: Good day and welcome to the AYM Syntex formally known as Welspun Syntex Limited conference call to discuss the Q3 FY2016 results and other business updates. As 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.

On behalf of AYM Syntex Limited, we have with us the key senior management including Mr. Abhishek Mandawewala - Whole Time Director, Mr. Mr. S. M. Khire, Director of Operations and the IR Team.

I now hand the conference over to Mr. Abhishek Mandawewala for the opening remarks. Over to you, sir.

Abhishek Mandawewala: Good afternoon, ladies and gentlemen this is Abhishek, welcome everybody to this conference call of AYM Syntex. I am pleased to announce the results of Q3 FY2016. As many of you would have seen the results which have been published our Q3 numbers on the EBITDA level have grown by 30% year-on-year to Rs.25.5 crores and at a PBT level we have grown by 59% to Rs.13.7 crores on a year-to-year basis.

On a PAT level we have grown 23% which is lesser than PBT because as many of you would have noticed that we have now started to pay tax, because all the accumulated losses have now come to an end.

On quarter-on-quarter basis there has been a small de-growth. On EBITDA there has been a de-growth minus 3% on a sales level there is de-growth of about 5% and on a PBT level there is a de-growth of about 12% and PAT is about minus 17%. This is in line with what we have expected before as many of you know Q2 is a traditionally a festive season and in India and in anticipation of the festive season in India and in anticipation of the festive season the demand generally picks up in Q2 and starts to fall back a little bit in Q3.

Also there has been another reason why there is a de-growth from Q2 which is that in this quarter we have had certain operational issues with respect to power shutdowns, in Rakholi plant this not a regular occurrence, this was a one-time upgradation even that was taken up by the local Government in order to upgrade the power infrastructure. I think from next quarter onwards we should start regularizing again so there is a mix of positive as well as negative in the results. The positive is that we have continue to grow our bottom-line with respect to year-on-year. The small negative is that as per our own estimates and as per our own business plan we have slightly fallen short of because of shutdowns that have taken place which unfortunately were not under our control.

As a result of the shutdowns we have also, it has not only resulted in loss of production but also wastages and downgrades which have increased the cost to a certain extent. We have not exactly quantified the effect of this shutdown but we feel that from next quarter onwards things should start getting to normal again.

In terms of the highlights, rating, our credit rating of CARE where A rating has been maintained this quarter and we are hopeful that it will continue to be maintained going forward. Our Palghar yarn dyeing new capacity has been commissioned and we have got an extra capacity of almost 50% now from 1,200 tonnes we are now jumping up to 1,800 tonnes from this quarter onwards. Of course capacity utilization will take some time but nonetheless, we have the capacity available to grow.

BCF downstream debottlenecking has been down this quarter, we have commissioned heat set and cabling lines and again the capacity will be available to produce higher quantity of value added products from this quarter onwards. Lots of investments have also gone in investing in upgrading the lab equipments which will allow us again to focus on value added products and help us to achieve our vision of making differentiated products in the Indian as well as export market.

Going forward as I had mentioned during our last conference call the teams, focus will be on plant improvements in particular in Rakholi our wastages and downgrades are still I feel when we compare ourselves on a international level they are below industry benchmarks and we are continuing on the path of manufacturing excellence and there have been lots of improvement which have happened over the last couple of months and we hope to continue to maintain this focus and continue to improve on our performance parameters in the Rakholi plant.

Similarly, we are working hard on controlling our quality and improving our quality and brining down our level of quality complaints as well as our rejections and every item of cost is being looked into in minute detail in order to do some value engineering in the plant in order to bring the cost savings, in order to realize the cost savings. These are low hanging fruits for which no investments are actually required.

This is for us the start of our journey in achieving manufacturing excellence and being the best on manufacturing facility in the country. The third area of priority for us is hiring, we are making a lot of new hires at a senior management level in order to bring more capability into the business, this is across the board, whether it is operations or sales and marketing or HR or IT there are a lots of new capabilities which are being added into our business. Fourthly, a lot of focus has been given and will continue to be given on product development. Although we have not commercialized any new products in this quarter, the initiatives that we have taken over the last few quarters they are moving on in a very healthy direction and they continue to show potentials, the new products that which are under development and work is moving on in a fast pace on all of these potential areas.

Similarly, we are also working on line optimization in order to exit some of the low profitability lines and replace them with high profitability products. And finally, our focus is also on creating the capacity in order enter high value segments and a lot of activity is also going on the sales side in order to create these high value segments for our businesses which earlier either they were not the focus or we have not been able to create much dent in these areas but now that the focus is in order to increases these segments going forward.

In terms of outlook, our company is now coming to a close to the earlier CAPEX cycle as compare to last quarter may be around Rs.75 crores of CAPEX was pending may be this quarter close to Rs.40 crores to Rs.45 crores of CAPEX of the earlier plan is pending which will take place over the next quarter and the quarter after next by the end of June quarter we should have completed this Rs.45 crores CAPEX. But now, we have almost run out of space in our facility and beyond this CAPEX in order to increase the capacity of the operations we will further investment in building and it is expected going forward that we will have to invest in a new warehouse we will have to invest in new buildings in order to house our further expansions and so some of this CAPEX going forward will be non-productive in the sense that they will not immediately pay back returns. But it is essential that we do this CAPEX. This Rs.45 crores that I am talking about does not include these investments that I am talking about. And also there is good progress on our fabric development project. Hopefully by this quarter we should be able to move closer to our goal of coming to a conclusion with regard to what we need to do in order to move this project forward and hopefully by next quarter I will have some more news regarding this project.

Regarding the debt levels today, we are close to our net debt level is close to Rs.191 crores which last time was approximately Rs.180 crores so this is the net debt minus all the cash and cash equivalents. Finally, I want to share not just the rosy picture but also the concerns so the concerns going forward some of the them remain the same before, the Anti-Dumping Duty is going to come up for review in nylon in the year of 2017 we have the RCEP which is a free trade agreement which is being negotiated between our government as well as the ASEAN countries which will allow free trade between even countries like India and China which can be small risk for some of our products lines. There is also risk with regard to entry tax in Surat we are working hard in order to prevent something like this and finally, due to our name change there are certain other issues with regard to Anti-Dumping Duties and we are trying to make sure that these issues are resolved sooner rather than later so, that it do not affect our business.

Finally, there is a lot of new capacity which is coming up in nylon, we foresee that over the next 12 months lots of new players as well as existing players are likely to expand their capacity and while we are continuing to work on our product development but we could foresee some, we can foresee some dip in margins going forward in the nylon area.

That is about it, I will open the floor now to any questions that anybody has.

Moderator: Thank you very much, sir. We will now begin with the question and answer session. Anyone who wishes to ask a question may press "*" and "1" on your touchtone Telephone. If you wish to withdraw yourself from the question queue you may press "*" and "2". Participants are requested to use handsets while asking a question. Ladies and gentlemen we will wait for a moment while the queue question assembles. The first question is from the line of Mihir Mehta from ICICI Securities. Please go ahead.

Mihir Mehta: Two questions, one as you said that we have expanded our BCF and dyed yarn capacity and I think BCF was done in September, October and dyed yarn is in November and December, just wanted to know whether this quarter has the benefit of that expanded capacity or due to that power shutdown in Rakholi we have not been able to utilize that capacity. And my second question is on the new CAPEX what you mentioned, can you just give us a kind of figure at what level you are looking at?

Abhishek Mandawewala: Okay. So to answer your first question regarding BCF let me clarify the new capacity that has come up in not for increasing the volumes, it is for debottlenecking the value added processes so we have not added any spinning capacity we have only downstream process head setting and cabling and that allows us to sell value added products as suppose to plain BCF products. So this quarter has seen some of that benefit, we have been able to sell more quantity of value added products as compared to before so that is the first question.

Mihir Mehta: And dyed yarn?

Abhishek Mandawewala: With respect to dyed yarn we have not been able to sell any extra quantity in this quarter, the impact of that will start being seen from this quarter as well as next quarter onwards so, we have commissioned the capacity as everything is ready but we have not been able to start the plant for want of certain approvals which we are expecting very shortly so by this quarter onwards we will officially start that plant, right now everything is started it has been all the equipment is ready, it is being commission but we are not able to run the lines because we do not have all the percentage necessary in order to do so.

Mihir Mehta: So we will see the full impact of it in the first quarter of FY17 that means?

Abhishek Mandawewala: Yes, I assume so, so full impact will come from FY17 but we do not expect to sell out that capacity so quickly it is going to be a slow and steady process we do not expect that the full capacity it will take us more than two years - two and half years to completely sell out that capacity.

Mihir Mehta: And CAPEX?

Abhishek Mandawewala: Okay, with regard to CAPEX right now it is little early to give idea about all the CAPEX we are not yet ready with the plans. The reason I made this point was to just bring it to the awareness of everybody that there is work being done, With regard to the yarn business I think we have all our levers for growth in place. I do not feel that we need to make big investments on the yarn business in order to grow the business, because there are a lots of new opportunities which we are trying to exploit as I had mentioned earlier there are lines available where the margins are low where we can try and increase the margins a lots of new product development initiatives are going on and through these initiatives I think we can increase the bottom-lines of the yarn business. Also with respect to BCF business as I mentioned, we have now debottlenecked the downstream and it will allow us to make value added products it will allow us to grow in the BCF business. In the Palghar business luckily we have done the CAPEX and we are had now 600 tonnes per month of capacity available. So in yarn going forward at least for the next 12 odd months we do not need to make any major CAPEX. We only need to be ready for the next set of CAPEX that we need to do may be much later onwards. So need to be ready with the let us say the building, we need to be ready with the infrastructure. So that whenever there is need to do CAPEX we are ready and we do not have to waste 12 months to 18 months to make all these investments. So on all these warehouse buildings and all I do not foresee a major CAPEX with respect to the fabric project we have yet not concluded anything we have yet not finalized our plan so, until we do that we do not want to give out any kind of figure. So I hope that answers your question.

Mihir Mehta: Okay. And if I can ask that what kind of volume growth if any we have seen in this quarter or a de-growth because of the power shutdown?

Abhishek Mandawewala: I would like to share with you from this quarter onwards we can start talking about volumes but year-on-year we have seen a degrowth in volumes, this quarter we have done around 12,900 tonnes of volumes and I will share a figure with you from this quarter onwards which will help everybody to analyze the numbers. Our EBITDA per kg stands at around Rs.19.5 so, I can share this figure every quarter going forward so it will help us also analyze the results a little bit better but the volume has gone down but do remember that before we were doing a lot of trading activity which we have completely stopped because it was not adding to the bottom-line.

Mihir Mehta: Yeah, no, I just wanted to also know whether this de-growth is just because of that power shutdown or I am not looking at year-on-year but I am looking at from September quarter to December quarter.

Abhishek Mandawewala: Yes so there is some de-growth and most of that degrowth can be attributed to the power shutdown so we had orders in our hand but we could not execute them because the power was not available so it has impacted us in almost all our areas except Palghar of course, except Palghar our polyester nylon as well as BCF business has been impacted as a result of this shut down and that has impacted the volumes.

Mihir Mehta: So I can make a positive statement that March quarter you will be able to dispatch those orders?

Abhishek Mandawewala: I would assume so, but you have to remember that it is lot of the products are let us say market kind of orders many of these orders so when you lose it is not a recoverable thing so you have to again start up fresh and again Jan to March we will again start afresh. But another point that I want to make here is that you have to remember that a lot of holidays were also there apart from this power shut down because of the festival season there were a lots of holidays which we encountered also because of that we have lost some working days and we were not been able to produce as much as we always produce.

Moderator: Thank you very much, sir. The next question is from the line of G. Vivek from GS Investments. Please go ahead.

G. Vivek: Yeah, so basically our business has been in the form of commoditized business in terms that our export our sales has come won the competitors have taken our place in the market from us, that was my first query? And second was about the export performance is the international scenario quite worrisome in terms of difficult market scenario and our export performance is also deteriorating?

Abhishek Mandawewala: So in terms of market share I am to exactly certain as to what the market share we are not tracking quarterly basis market share I can tell you that when we talk on a year-to-year or a quarter-to-quarter basis we are making decisions of selling waste on margins and many of the low margin products sorry, we have exited and we continue to exit, we are happy making let us say one turn which results in Rs.100 other than make two turns which results in Rs.100 so, we would rather make smaller volume and make higher quantity of profit then make more volume and make same the same profit. So any business that we have exited is by choice it is not because competitors have posters out or anything it is by choice. Even today the orders that we have are pretty comfortable and we do not need to worry about filling up the plant capacity it is our choice in order to make sure that we are maintaining the margins and we are doing the best with the machines that we have available in house. What was your second question sir if you can kindly repeat please?

G. Vivek: About the exports performance and the international scenario for that.

Abhishek Mandawewala: Okay. So with regard to exports, our exposure to exports is lesser when it comes to textile business and is more with respect to BCF business but as of now we have not seen much impact of slow down that is there in China or wherever U.S. or wherever we are not seeing much impact of slow down but I must warn you going forward we are foreseeing also just like nylon a lot of capacity coming up in BCF particularly in many areas in the product that we are manufacturing and it is possible that going forward a year or two from now the margins that we are making in the products that we are producing might not be maintained so we must continue on our journey to develop new products and stay ahead of the curve if we have to maintain our margins. But as of now in the area where we are exporting mainly BCF, we have not seen as such any adverse impact and our order position continues to remain healthy.

G. Vivek: How much percentage exports for us amongst the total turnover?

Abhishek Mandawewala: About 20% to 22% is exports.

G. Vivek: Okay. And what is the basically pipeline for R&D investment and the innovation investment and output from the same and when can we expect something?

Abhishek Mandawewala: So work continues to go on in these areas as I had mentioned earlier, our entire team's focus is on new product development whether it is the plant team or the sales team or the R&D team or the product development team everybody is gear towards introducing new products every day new ideas are coming but commercialization of many of these ideas is a long process particularly when you have to commercialize ideas on an international level, so we will have to be a little patient with this I do not want to put any kind of timelines we have a lots of opportunities on which we are working and hopefully in the next financial year we should be able to commercialized something.

G. Vivek: And basically last few questions is about that Anti-Dumping how long will it save us and what is the way out for that and any impact of TPP and going to Vietnam the textile capital manufacturing capital of the world.

Abhishek Mandawewala: So TPP as of now we are not seeing much kind of in our business we are not foreseeing much kind of impact right now, going forward five years - seven years nobody knows how it is going to impact but it will have an indirect impact it will not have a direct impact very few of our exports are actually to U.S. which is the main country where TPP is going to have an impact so, in our current exports, I do not see much impact of TPP going forward of course our future business plans if you want to create some business in the U.S. future business plans might definitely get a little bit impacted but as of now the business that we have I do not see much impact of TPP on our current business.

Moderator: Thank you very much, sir. We have the next question is from the line of Pritesh Chheda from Lucky Investments. Please go ahead.

Pritesh Chheda: Sir, last quarter you said about BCF expansion capacity from 500 tonnes a month to 800 tonnes a month in quarter three FY16, is this capacity expansion has come through or is it that its only value addition and that 500 to 800 is no more valid?

Abhishek Mandawewala: No, so we have expanded our capacity from 500 to 800 so we are always having 800 tonnes of capacity with regard to spinning but in order to sell spinning material is very difficult the margins are very low we must add the bottle, we must debottleneck the further downstream processes in order to take the full benefit of that extra capacity. So the capacity that has been added over the last couple of quarters is in the downstream so, this downstream capacity has been added which has also helped us to increase our volumes because it allows us to sell products where the value addition is high and where the margins are good.

Pritesh Chheda: So before this capacity you use to 500 tonnes a month of BCF and after this capacity you would 800 tonnes a month of BCF or any other product?

Abhishek Mandawewala: So it is not a simple calculation, so depending on the product mix, depending on the deniers the production is different so, different product have different deniers and some products which are let us say do not require a value addition might of high deniers some products which require a value addition might be a lower deniers where we get low production so even though the downstream process is getting added the production might come down but the value addition and the margins and the profitability will go up because you are generating much more let us say profit margin on those products, so it is not a one-to-one calculation but in general by debottlenecking the downstream, the profitability is going to increase proportionately.

Pritesh Chheda: So can you give me the nine months, volume number also in EBITDA per kg?

Abhishek Mandawewala: We do not have that figure from this quarter onwards we have started sharing the EBITDA so, going forward let us say over the next two quarters - three quarters you would be able to calculate the EBITDA but this EBITDA per kg is on an upward trend.

Pritesh Chheda: Okay. And lastly so far the capacities that you have let us say yarn dyed 1000 tonnes a month, nylon 800 tonnes a month that is fully utilized right?

Abhishek Mandawewala: I am sorry, which?

Pritesh Chheda: The existing capacities that you have yarn dyed thousand tonnes a month and nylon 800 tonnes a month that is the utilization level is almost 100% there.

Abhishek Mandawewala: I am not sure what you are talking about nylon 800 tonnes per month, are you talking about the textile business, Silvassa business?

Pritesh Chheda: Yeah.

Abhishek Mandawewala: Okay. So all of this capacity is fully utilized.

Moderator: Thank you very much, sir. The next question is from the line of Dhwanil Shah from I-wealth Management. Please go ahead.

Dhwanil Shah: My question was regarding the overall capacity if you could just tell me what is the current capacity for us as of now so, as you said is 12,900 we did volumes this quarter, so if you could just give us the capacity number so that will be helpful.

Abhishek Mandawewala: I am not sure, see every business area will have different product mix and every product as I said depends on the denier so I can say that we have 30,000 tonnes capacity but it is for certain the capacity changes, product mix changes the capacity changes. So what I can definitely tell you is that most of our equipments right now are fully utilized with the exception of downstream BCF. The Rakholi plant is fully utilized the downstream BCF with the exception of downstream BCF, Palghar of course we have 600 tonnes of capacity available and we have some small lines in Rakholi plant for some niche products they are may be a little bit unutilized, but apart from that most of the capacity is utilized.

Dhwanil Shah: Okay. So sir, the downstream BCF would not be added in terms of volume because whatever we are producing now so that is the end product if my understanding is right.

Abhishek Mandawewala: No, there were some intermediate products which we are also selling and as a result of this capacity addition, we do not have to sell intermediate products or we can sell less of those intermediate products and we can increase the margins and we can increase the profitability by doing this downstream processing.

Dhwanil Shah: Okay, sir. Sir, and then one more question was regarding our other cost which we had shown this quarter so, as compared to Rs.38 crores previous, this quarter is around Rs.54 crores which you said the power and other cost had gone up so sir on a like-to-like basis going ahead so again we can see that Rs.38 crores - Rs.40 crores of number again coming in or this can be the new this thing?

Abhishek Mandawewala: It is very difficult to give because that includes many things, I can tell you on the basis of few break-ups of other so for example man power cost which is significant part of that cost is definitely going to increase going forward because we are adding a lot of senior management, of course there is continuously rationalization exercise which is going on but going forward senior management is going to be added this is important in order to build on the future take the new products to the market if we have to get into higher value added products and segment we will have to have the right capability in our company in order to market these products and also to develop and to manufacture these products so man power cost to a certain extent will go up definitely with respect to some of the other manufacturing cost whether it is a stores or wither it is the fixed over heads a lot of exercises are done in order t control and to rationalize these cost but it is very difficult for me to give a figure as to what the other cost will be going forward.

Dhwanil Shah: So in terms of the increase which you have seen because of the other one-time cost which was there in this quarter so, that quantum if you could just tell us because sir, I was asking this because I see if you I think Rs.38 crores to Rs.40 crores is the other cost for us. So if you try to get that number then EBITDA margins come to around 17 odd percent which is the big jump getting this quarter so just wanted to understand in that sense whether this number can be possible next quarter because now the power and everything has been stabilized.

Abhishek Mandawewala: Okay. So first of all the 38 crores I am not sure 38, forty eight or you mean thirty eight, three or four?

Dhwanil Shah: Four sir, 48.

Abhishek Mandawewala: Yeah, okay. so see it is a jump of about may be Rs.5 crores or Rs.6 as most of this will come because of the extra man power that we continue to add of course there is also some extra cost which is because of this power shut down but the power shutdown has mainly resulted in greater wastages and loss and restarts and next quarter onwards this should get rationalized our production parameters are also continuously improving because of the efforts that we are taking. Again it is very difficult for me to give you a forecast of the next quarter.

Dhwanil Shah: Not an issue. And sir, one more question was regarding our volume if you could just give us some guidance on this I mean how do you see this going ahead in terms of what is your internal target in this?

Abhishek Mandawewala: So as I mentioned earlier we have a lot of levers in place right now to grow without increasing the volumes so, many of the products which are in the pipeline as well as the extra capacity in Palghar as well as the downstream capacity in BCF plus the initiatives that we have in the textile area, a lot of levers are in place in order to grow the margins further from here without increasing the volume significantly so, there is no need to invest in further CAPEX right now and significantly grow the volumes when we do not take these low hanging fruits and we do not let us say take the advantage of increasing the profitability without incurring any CAPEX so, once we are out of all these levers I think then we can discuss about and think about increasing the volumes. But as of now I think textile are we are fully utilized Palghar of course we have good scope for increasing the volumes, BCF the value addition volumes can increase but overall BCF volumes will not increase but the value addition will increase so again the profit will increase so until we do not until we do not completely take advantage of these levers we do not want to increase the volumes so there is no point. The other way to look at it is also that you can always increase the tenure and increase the volumes but what is the point of increasing the volumes when the profitability is going to much lower in those products.

Dhwanil Shah: Got your point, so our target is mainly profitability going ahead?

Abhishek Mandawewala: Correct, so there are a lots of levers in place where without increasing the capacity significantly we can increase the profitability and until those levers are not exhausted we do not need to invest in further CAPEX so, the next may be year, year and half will be invested the time will be invested in order to let us take advantage of these levers and in the mean time as I said earlier we need to get ready for the next CAPEX whenever that happens after year, year and half year, two years whenever it happens so, we need to be ready with the building and we need to be ready with the infrastructure as soon as we see that we have completely taken advantage of all the levers that we can, we can start investing and increasing the capacity.

Moderator: Thank you very much, sir. The next question is from the line of Ayush Mittal from Mittal & Company. Please go ahead.

Ayush Mittal: Sir, one thing if we see the numbers of a company for last two years and we see the CAPEX that we have been doing I think we have done a CAPEX of around 150 odd crores till now over the last two years or so, while the total turnover has been flat in the range of Rs.850 odd crore - Rs.900 odd crores. Can you take us through this thing?

Abhishek Mandawewala: Okay. So Ayush again there are two three factors that we need to keep in mind number one as a result of oil prices coming down by almost 70% our raw material prices have also come down although not in a proportional extent but to a certain extent our raw material prices have also come down. So for example, polyester chips which may be in June - July last year were may be somewhere close to Rs.90 - Rs.95 today may be close to Rs.55 - Rs.60 so trending. So in the same way unfortunately we do not have the pricing power where we can hold the prices despite the raw material prices come down our customers are well aware of our raw materials and as soon as the prices come down our finished goods prices also come down. Secondly, you have to also remember that until two years before this major CAPEX happen there is a lot of trading volume that we were doing where buying the BOI making the texturized material and supplying it in various parts of let us say India as well as exports and we have completely halted all these activities which were completely non-value adding and consuming the working capital of the company so, that also has resulted in the turnover to come down. And then finally we are focusing on investing in value added processes and where we can improve the margins of the business rather than just blindly improve the capacity. So all these three factors or four factors it has resulted in the fact that while the top-line has not grown but because of the CAPEX that has been done the bottom-line has grown up disproportionately so, I hope that answers your question.

Ayush Mittal: Yeah. And to take this further like in this nine months of this year, what kind of volume growth we would have done?

Management: I do not have, it would have remained flat over flat.

Abhishek Mandawewala: I do not have the figures off hand but we can get back to you but in my opinion it would have been a small de-growth rather than a growth of volume. So you have to also remember that when we switch from polyester to nylon the volumes actually come down.

Ayush Mittal: Okay. And what kind of proportion in our turnover we would be getting from the trading activities may be two years back or a year back?

Abhishek Mandawewala: We can share those figures, we do not have those. So we can share those figures next time.

Ayush Mittal: Sure. And in the current year I think, if I see the September balance sheet there was almost a 30 odd crores - 40 odd crores which you mentioned in your opening comments also, can you tell about that what is this CAPEX for and how it will happen?

Abhishek Mandawewala: So this CAPEX is around Rs.40 crores to Rs.45 crores, it will happen over the next couple of quarters may be half of it will happen by the end of this quarter and the remaining half will happen in the first-half of next quarter. Over here basically we are going to be adding some capacity in specialty nylon, some money will be spend there, some money will be spent in adding certain small capacities, single position line which will be specialty line in order to produce products that have not been produced in India before. Unfortunately, I cannot share much more details about those lines as of now, we want to commercialize those lines first and we want to offer the products in the market before we start talking about those line but these are specialty lines but they are mainly R&D lines which will allow us to learn about the specialty products and get ready in order to order those products going forward. And there is some further downstream investment that will happen also in BCF which will allow us to add to the diversity of the product that we are offering to the customer so, may be a little bit investment in BCF downstream and a little bit investment in spinning for adding some value added products.

Ayush Mittal: Okay. Just to understand the business model like we have been moving up the value chain and trying to get into specialty products, can you talk a bit about the customer relationships are these products like what kind of pricing policies do we have with the customers, how soon do we revive the prices with the crude coming down what kind of pressures have you seen from the customers and something on these things?

Abhishek Mandawewala: So generally the pricing happens every week or every two weeks and it is a very transparent method of pricing so, there are positives and negatives, the negative is that we do not have as such pricing power as you would call it. So we do not have the ability when the prices come down to hold our prices. It happens in certain cases where we are offering products which may be our competitors are not able to offer or where the dependence of the customer on us is very high. But in most of the cases I would say a bulk majority of the cases the pricing power is not there so as soon as the raw material price comes down the finished goods prices come down proportionately. Similarly, when the prices go up the finished goods prices also go up proportionately so, it is a transparent method pricing with many customers we are linking the raw material with the finished good price. So it is a direct link and as the up and down happens the up and down happens automatically on the finished goods. But last two years as you know the crude prices have been coming down and we have the benefit of reducing prices so, always reduction of prices are easier then increasing of prices. We have not had the experience in the last two years to three years of increasing prices, it will be, it is an experience that we will see over the next may be couple of years if the crude prices go up and the raw material prices go up then what difficulty we will face or we will not face we have to see that only when it happens but right now I can tell you that it is much easier to reduce the price then to increase the price, so we have to be mindful of that that it is not just that if the crude price goes up immediately may be we will not be able to increase the price, may be it will take 15 days or maybe it will take 20 days or maybe it will take a month or maybe there is access capacity and customers might not be willing to increase the price but in many cases there is a transparent policy where the raw material prices are linked with the finished goods prices.

Ayush Mittal: Another question that I have is when you in your comments also you mentioned about the competitive intensity which is going to increase in the nylon area and the BCF area at the same time as a company we see that you have been mindful of it and you are trying to be ahead of the curve. We also there is a lot of R&D expenses that you are doing with others are not doing, can you talk about these initiatives how you are trying to develop new products what kind of policies do you have, people do you have by which you are able to move up?

Abhishek Mandawewala: So Ayush, I cannot talk about the exact opportunities but I can definitely tell you about our process so first of all most of the people who are out there in the market we make sure that they are techno commercial people and they have an experience with regard to the textile industry and they understand the products very well so, a lot of the feedback or the word of mount of the customer is being broad back by the people who are out there and from that we work backwards and we have a product development team in house, we have many qualified people in house we have invested a lot of in downstream processing just on a lab scale in order to be ready with the product before we offer then in the market so, for example, in BCF we have investing in taping machine we have no business to do any kind of taping but we have invested in taping machine so that we can develop the products in house and we can see the impact of the new yarns that we make on the final product before we offer it to the customers. Similarly also, as I mentioned in the start of my opening remarks we are investing heavily in man power particularly in these areas in order to bring us more expertise in order to get more knowledge about the finish products and more knowledge about our customers so that these product development initiatives can be fast forward, you know they can be fast forwarded so continues investment is happening not just in people but also in the infrastructure and that is allowing us to have a good pipeline of products going forward. So one is that we need to make sure that we have technical people in the field capable people in the field who not just who are going and selling the versus but who understand the products by the back of the hand and they have the capability to visualize the customer’s requirements and bring it back to the product development and R&D and you know get them to develop products which are as per the needs of the customers and secondly also investing in the physical infrastructure so, we have invested a lot of in also lines which spinning lines and lines let us say downstream lines which will never make money for us, they will always create losses but it is important to have those lines so that the response to the customer increases. So if we are having let us say a multi position multi faceted line with lots of positions it becomes very difficult to do a product development because customers will always you cannot stop a bulk line in order to do development for one customer so we have been very mindful of that also, so it is a lot of little things which come together but I think we have a long journey to go it is not that we are doing everything perfectly we have a long journey to go and a lot need to be achieved in this area. We are still at the bottom when we compare ourselves to our international competitors they are doing a lot of things much better then what we are doing and we need to get better even in this area going forward. So I hope I answered your question.

Moderator: Thank you very much, sir. The next question is from the line of Apurva Shah from Phillip Capital. Please go ahead.

Apurva Shah: Sir, two quick things how many days of production we lost because of this power issue?

Abhishek Mandawewala: This is not exactly total debt production loss but the loss suppose the power tripping is for typically 12 hours, restoring that and again starting reproduction will take about 16 hours so, like it is a estimate productivity loss will be more than actually the power loss.

S.M. Khire: So just to add, this power tripping even if it happens for may be more than one hour the impact of that one hour power trip is much more than just a one hour. Particularly in nylon in order to re-stabilize the line it takes a huge amount of effort you know it is not easy to stabilize a line again once the line stops. But this happened multiple times over November and December multiple stoppages happened it was not just one long period of 36 hours or 24 hours it was multiple stoppages which really impacted our production and quality also.

Apurva Shah: But now that is stabilized?

Abhishek Mandawewala: Yeah, that is stabilized.

Apurva Shah: Okay. And second thing, you spoke about the new capacity coming up in BCF so any particular number that how many capacities are coming in India for BCF?

Abhishek Mandawewala: No, as I had said last quarter our standalone capacity, our max capacity if we make the all the high deniers product the max capacity if we make the all the high deniers product the max capacity is 800 tonnes but it is very difficult to reach 800 tonnes because we do not deniers we make slightly higher end products and those higher end products are not always of the maximum denier so…

Apurva Shah: Abhishek, I am asking about new capacity coming up, in your initial remarks you guided like there are might be some decline in profitability because of new capacities coming up so, I just wanted to know for that new capacities coming in the industry.

Abhishek Mandawewala: So what is that you are talking about I am not able to….

Apurva Shah: In BCF you, like in your initial remarks you spoke about we might see some profitability reduction in BCF because of new capacities coming.

Abhishek Mandawewala: Correct.

Apurva Shah: So I am just looking for how much capacities is coming in industry any rough idea?

Abhishek Mandawewala: No, it is very difficult to estimate that there a lot of people and this is a feedback that we are giving after interaction with many of our suppliers also some of our competitors and also after taking to our agents as well as our customers. Overall the trend seems to be that many people particularly in Turkey are adding a lot of capacity or they are converting their existing to make product that we are making and particularly in polyester a lot of new Turkish players are coming and we foresee that huge capacity will come up in polyester area may be one year to two years down the line and there might be some pressure on the profitability of let us say products which are the standard products there might be some pressure on profitability on those products. but to quantify it is very difficult.

Apurva Shah: Okay, got it. But probably we may benefit because of our investment in downstream value addition?

Abhishek Mandawewala: Correct. So we are working on those, so downstream value addition will not save us from this capacity addition so our friends in Turkey will also be adding the downstream, we need to develop products which may be they do not have today or which they are not able to make or which they do not have the know, how to make so, that is what we need to spend our time on and if we are able to successfully do that then we can shield ourselves from margin contraction.

Apurva Shah: Fine. And just one more clarification, earlier you guided for Rs.135 crores CAPEX for FY1616 so in the current conference call you spoke about Rs.45 crores so that 45 is part of 135 or this is some part of it is incremental CAPEX as well?

Abhishek Mandawewala: No, this includes all the CAPEX that we have been spoken…

Apurva Shah: So this is part of your earlier spoken CAPEX only?

Abhishek Mandawewala: Yeah, this is the same. If you remember last quarter there was about Rs.75 crores which is pending so this quarter there is about Rs.45 crores which is pending.

Apurva Shah: Okay. So for this quarter like the incremental CAPEX will be for that non-productive areas like for warehouse where you cannot quantify the return generated on that CAPEX that will be only new CAPEX we are looking for in near future.

Abhishek Mandawewala: So this 45 does not include that.

Apurva Shah: Right, got it.

Abhishek Mandawewala: That non-productive CAPEX will happen after this Rs.45 crores happens.

Apurva Shah: Right. So that will be only additional CAPEX for next year.

Abhishek Mandawewala: Correct. So as of now we are only foreseeing for the yarn business only that CAPEX as of now.

Moderator: Thank you very much, sir. The next question is from the line of Saket Lohia from Kanav Capital. Please go ahead.

Saket Lohia: Sir, I just wanted to understand on the fabric part you mentioned in the opening remarks, could you please tell more about that the fabric?

Abhishek Mandawewala: So right now I do not think we are in a position to comment in much more detail as we discussed this is a project that has been under consideration we have not taken a decision but a lot of work has happened in the last three months on this project and as an when we come closer to finalizing what it is exactly what we want to do, maybe we can talk about it a little bit more hopefully we will have some more clarity by next quarter or may be the quarter after next. So as and when the clarity emerges, we will share a little bit more details. The purpose of me to share was to let everybody know in the investor community that we are working on a project like this.

Saket Lohia: Okay, sir. So next question would be the working capital to sales has been traditionally quite low are you seeing going forward it should remain the same or is it somewhere on the higher or on the lower side?

Abhishek Mandawewala: See ironically what we have noticed is that the commodity product I am not able to understand actually how, but the commodity products are the products where the products are sold in immediate payment terms and many times the value added products are where the customer is asking for let us say credits and all that. So as an when our value added products increase I think there will be a little bit increase in the working capital because the credits will increase, but on the same time we are working very hard on the supply front where we are trying to increase the credit periods or we are trying to get interest free credits or low interest credits from our suppliers but overall I think going forward I feel that working capital will slightly increase in terms of the credits it will slightly increase.

Saket Lohia: So as of now for Rs.800 crores of sales, in terms of value added products and commodity prices the bifurcation.

Abhishek Mandawewala: No, we do not classify, we have not classified these areas. what is the value added and what is the…so sometimes many commodity products are also generating very high margin so we do not classify in that way.

Saket Lohia: Okay. The another part the credit rating you guys shared a few days back sir, and in that the short-term facilities the amount is mentioned Rs.206 crores and CARE even rating so please clarify on that what is it exactly, I am not able to understand.

S.M. Khire: No, this credit rating they give for the short-term as well as the long-term no.

Abhishek Mandawewala: The company level credit rating.

Saket Lohia: Company level.

Abhishek Mandawewala: Yeah.

Saket Lohia: So the amount is 200…

Abhishek Mandawewala: Once the CARE rating company CARE rating have given the credit rating.

Saket Lohia: Yes, sir, I am not able to hear it.

S.M. Khire: I am saying for your short-term as well as long-term the credit ratings are being given so CARE rating have reaffirmed our CARE rating as of now after. **Saket Lohia:** There are two items that have been mentioned there long-term that is when 50…

S.M. Khire: Correct, that is A and A1, there are two credit rating which have been given.

Saket Lohia: So I was just asking on the amount part the 206 crores I am not able to understand why is showing 206, is it the sanction limit or something or the other?

S.M. Khire: Rs.206 crores will be long-term.

Saket Lohia: No, long-term is mentioned Rs.150 crores, in short-term.

S.M. Khire: 150 and 206 is the short-term yeah, sorry working capital total.

Saket Lohia: Sir, I am not able to understand. There are two parts 150 and 206?

Abhishek Mandawewala: Yes.

Saket Lohia: So the long-term is 150 I get that part the short-term is 206, I am not able to understand that part why…

Abhishek Mandawewala: It is unutilized most of it is unitized those are the sanction limits that we have.

Saket Lohia: Those are the sanction limits. So going forward are you seeing a increase in short-term debt as well from current level?

Abhishek Mandawewala: No, not in the immediate term, in the immediate term we do not foresee any increase. May be over the long-term as I am saying, as our company start to make more value added products definitely, there will be a little bit higher credit and so credit period so may be over the long-term the short-term the facilities will increase but over the next few quarters I do not foresee any significant increase in these.

Moderator: Thank you very much, sir. The next question is from the line of Mr. Desai from Turtle. Please go ahead.

Desai: Abhishek, one question I think our product basket consist of number of products ranging from high commoditized product to relatively very specialized product like BCF. So if we have to look at the current product basket without going into specific if you can share what percentage would you attribute to commoditize then to relatively more kind of specialized product, if you can gain that portion?

Abhishek Mandawewala: I am sorry, actually we have not classified value added and commodity separately even in our internal reviews and our internal communication we never talk about it in this way and also to clarify just because the product is BCF it does not make it high value, there are lots of BCF products which are low value and commodity kind of products. The value added products when I mean is something where we are offering a differentiated products as compare to our competition where we have may be a little bit edge in terms of that not all our competitors are offering those kind of products and where we are may be the first to develop that product and very few people know about that product and we are able to offer it amongst large field of people who are not aware or are not able to manufacture that product. So we are not classifying internally value added versus commodity. As I said many times, even commodity products there are certain commodity products which are giving us higher margins of course that is only that is not because we are doing something very good it is purely because of supply demand mismatch. But the value added products generally you can expect that the margins will remain maintained because it is difficult for let us say immediately for other people to come and start competing in those areas but we do not classify commodity versus value added.

Desai: Okay, fair enough. I think another question was related to the capital deployment I mean what is typically the internal thought process value deploy capital, is it just return some return benchmark or EBIT something additional also that will kick-in like more strategic in nature and things like that and in terms of return benchmark what is the threshold that you work with typically while making and capital investment?

Abhishek Mandawewala: So that is a good question I am very happy you asked it. So most of the CAPEX decisions that have been made or going forward now, there are two or three factors that we will always keep in mind there will of course one the most important factor will be the return factor that what is the total invested capital including the investment in the building as well as the machinery as well as the working capital and then what is the return that we can generate on that, I think a rough idea it is very difficult to always calculate the returns but whenever we do our internal calculations, we try and at least have a benchmark of at least 20% and if we are not able to generate 20% over the long-term, so over the short-term of course to generate those kind of numbers is very difficult on new plant and machinery but as the depreciation happens and may be after two years - three years there is a little bit of depreciation. Long-term 20% is a good figure to have for synthetic yarn industry which is a very competitive and capital intensive industry so, we are happy if we are able to do, 20 and above. And the second factor of course there is always one governing thought which is driving us which is at going forward up until now the company has come out of a turnaround situation and earlier situation and earlier we were struggling for cash may be five years back we had to really do things where we can immediately make money and we do not have the luxury to think about the long-term but fortunately because of the teams effort we have been able to come to this situation now where we can deploy our cash thinking even about the long-term and here what we must think is how can we invest money in products where we have certain edge or how can we invest money in lines and products where we will be slightly differentiated from our competitors and as a result of whatever it is that we are doing, it will not be just a simple copy cat kind of situation where our competitors can just start making and they can just come and copy us and they can reduce the price and give us competition. I mean to make investments in these area it does not make much sense because may be five years back it did because we did not have any room to breathe and we have to make somehow we have to really make profits from somewhere because otherwise the company was not doing very well and but now we have become very mindful about where we are investing so for example one of our nylon lines in one particular area we are making healthy margin. But we do not want to invest further in that areas even despite the fact that we are making healthy margin because it is a commodity, it is just a supply demand game and today everybody can see that the supply is a miss match so, in that particular area let us say product x of nylon, product x we do not want to invest because may be today there is a shortfall may be everybody is looking that there is shortfall and if not today, if not tomorrow, if not this next year they will come and invest, so what will happen at that time? Then what happens to all that investment. So even though the margin is good we do not want to invest in that area we want to invest in an area where there is some level of there is some level of differentiation where our competitors cannot just copy us and even if they can copy us may be not everybody can copy us lesser number of people can copy us and so the prices are likely to be maintained so, these are some of things that we are thinking of when we are doing the CAPEX. So not just the returns, but what is more important is the sustainability of that return.

Desai: Okay. So basically you are looking at both the return benchmark and the sustainability of that by differentiated products, right?

Abhishek Mandawewala: Correct, correct.

Desai: Okay. And just a follow-up on this in terms of 20% whatever benchmark that you have do, you assume some lower share or it is only results do you look at?

Abhishek Mandawewala: I am sorry, your voice was breaking, can you please repeat?

Desai: Do you assume some leverage in the 20% return benchmark that you have yourself or it is only the 20% what you look at?

Abhishek Mandawewala: No, when I say 20% I am talking about total capital it includes debt as well as equity. So return on equity will be what we look at will be so, what we are doing right now let me summarize what we are doing right now let us say around 30%-32% ROE and about 20%-22% ROCE, we would like to maintain this, we do not want to go below this. I mean that is an ideal case scenario always sometimes competition does not allow you to do that but when we make a new investment we want to make sure that at least as per our own internal calculations at least that benchmark is being made.

Moderator: Thank you. Due to time constraints we will take a final question from the line of Mr. Ayush Mittal. Please go ahead.

Ayush Mittal: Sorry, my questions have been answered.

Moderator: All right, thank you, sir. I now hand the conference over to Mr. Abhishek Mandawewala for closing comments. Please go ahead, sir.

Abhishek Mandawewala: So thank you, everybody for joining on this concall and we look forward to seeing you again next time. Thank you very much.

Moderator: Thank you. On behalf of AYM Syntex, that concludes this conference. If you have any further questions you may contact the IR team later. Thank you for joining us and you may now disconnect your lines.