AYM Syntex Limited
Conference Call
Q4 FY20 Results & Other Business Updates

June 15th, 2020

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

Moderator: Ladies and gentlemen, good day and welcome to AYM Syntex Limited Conference Call to discuss the Q4 FY20 Results Discussions and Other Business Updates. On behalf of AYM Syntex Limited, we have with us the key senior management including Mr. Abhishek Mandawewala – MD & CEO and Mr. Himanshu Dhaddha – CFO. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*"then "0" on your touchtone telephone. Please note that this conference is being recorded.

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

Himanshu Dhaddha: Thank you. Good afternoon everybody. I welcome you all to the conference call on our company's behalf. And thank everyone for taking time to attend this call. I wish and hope that every one of you and your known are safe and healthy in the current pandemic situation. Let me begin this conference call with a short update on the Q4 results and the full year results of FY20 which is also in the public domain and also uploaded on our website www.aymsyntex.com.

AYM Syntex posted revenue from operations of around 245 crore for the quarter ended 31st March 2020, which is down by 7% over the corresponding quarter last year and also from Q3 of FY20. On account of few days of lockdown towards March end which affected operations in the later half of the month. On the full year basis it grew by 4% as compared to FY19, on account of higher exports sales BCF segments in the quarter continuous it's growth and increase of share in exports resulting into the improved gross contribution at the company level. RM price continue to be at subdued levels in Q4 also, in terms of tonnage we did almost around 12,000 to 75 tonnes was lower as compared to Q3 FY20 and Q4 FY19. But on YTD basis, the sales in metric tonnes are higher at around 55,859 tonnes as compared to 50,564 tonnes in FY19 a growth of almost 10% over last year on the volume basis. Exports as a percentage of NR continued to rise and was at 46% in Q4 FY20. On a full year basis, exports have stood at around 40% share in the overall revenue. Operating EBITDA for the quarter is at around 24 crore which is 9.7% of NR as compared to 26 crore in Q3 FY20 and 22.9 crore in Q4 of FY19. On YTD basis, the EBITDA jumped to 97.5 crore as compared to 77.5 crore in FY19. The operating EBITDA numbers for the current quarter is at similar levels to Q3 FY20, barring a few days of March which got affected due to lockdown on account of COVID-19. The EBITDA per tonne in the current quarter has improved to 19,552 per tonne as compared to around 17,500 per tonne in the last quarter. Profit before tax for the quarter ending March 20 stood at around 4 crore which is 1.6% of NR as compared to 4.7 crore in Q3 FY20. Interest cost has reduced in the current quarter with the reduction of the term debt and decrease in the working capital requirement. Profit before tax and exceptions for the whole year increased almost threefold and stood at around 14.5 crore as compared to 5.4 crore in FY19. The deferred tax gain is on account of the reversal of deferred tax liability as it needs to be restated based on the revised data under the new tax regime, which the company will adopt in the future. Although company continues to opt for the old regime currently and hence, we have carry forward losses of MAT credit and unabsorbed book depreciation in the books. The impact of it, has been carried out in the effective tax rate in the current as well as the previous quarter. The net debt figure stands at Rs.232 crore as on March 20, verses 229 crore in December 19. Company has availed moratorium of term loan installment due in the month of March under the RBI guidelines, net debt to EBITDA ratio improved to 2.4 crore as on 31st March 2020 versus 3.5 in the preceding year. The overall gross debtors in the book stands at around 114 crore a decrease over December 19 figures on account of no sales in last few days of the year during lockdown. Out of it almost 2 crore are the debtors which are above 180 days.

Current Ratio excluding the term liability portion is maintained at 1.21 versus 1.20 in March 19. As far as COVID impact on the company operations is concerned the operations of the companies were impacted due to the shutdown of both the plants and offices at the various locations following the lockdown imposed by the government. Our plants have resumed operations in the phased manner from April end only. On the liquidity front the company has taken steps to ensure adequacy of the financial resources. The company also has availed moratorium as I mentioned earlier. In the short term the cash positions of the company is comfortable and the liquidity is available having unused credit lines. A detailed note on the impact assessment of COVID-19 pandemic on the company have already been filed to the stock exchange on 9th of June and is available on the website. However, the impact assessment is a continuous process given the uncertainty associated with its nature and duration. With this information note I am handing over to my colleague, Mr. Abhishek who can provide you more business updates on Q4 as well as March FY20. Over to you Abhishek.

Abhishek Mandawewala: Thank you, Himanshu. Good afternoon everybody. Hope everybody's and their family are safe at home. I want to begin by saying that all our members of the AYM family are safe in all the locations and everybody's taken utmost care, in order to make sure that we take the utmost care in order to prevent the spread of this virus. Just to begin, just as the business was starting to deliver record level performance, we are now having to encounter yet another disruption in a series of disruption since 2016. Some of you have been with us in this journey over the last five years. And have seen, occasionally various times when our business went through a tough time, this is just another one of those. The business has seen through tough times in the last five years and we will see through this one also. But each disruption has allowed us to dig deeper, introspect and make changes to make the business more robust. And each crisis has helped the business improve and hopefully as we look back, we will see that even this crisis is one that eventually pays itself back. Himanshu has already given you a flavor of the results, it's very evident that the business had just started to break out. Despite having lost the last 8-12 days, which we generally use for majority of the dispatches to happen for the month. We have still managed to clock an EBITDA of almost 24, 25 crore. Taking us towards the 100 crore plus run rate that we used to achieve before all this disruptions in 2016. And, this is when the nylon was at peak and that was contributing very significantly to the bottom line. So, despite having a tough nylon market this year we almost touched 100 crore EBITDA.

Now, while we have lost our momentum because of Corona and it will take at least a couple of quarters to get back. I am pleasantly surprised with the way the business is holding up in a near zero demand environment. As many of you know that in domestic, things are still not opened up while exports are happening. But the initiatives reflected in Q4 results were just the tip of the iceberg and we were only just starting to see the fruits of those earlier initiatives. It is that very same work that we have been doing for the last three to five years, which will help us see through this time. Add to that the work that we have initiated in the past three months. And I'm confident, the business profitability can be even healthier than what we had previously imagined. Of course, this is only after the things get back to normal. And nobody knows when that will be. Needless to say the current quarter will be tough and while things on the ground have started to improve, I expect the next quarter to be tough also. Now moving on to the business, it's a changed environment. So instead of looking behind, I should be looking in front. Himanshu has already given you a flavor of the last quarter. So I will try to give a picture of the current situation as well as the future in each of the businesses. So I'll start with POI and text, the textile business. The business is operating at about 40 to 50% capacity as of today, despite local markets being almost nonexistent. So, dialogue market is almost nonexistent, despite that we're able to operate at about 40 to 50% levels. And I can see that the local market is also starting to pick up but I'm fairly confident that July onwards they should, the textile side business should also start to pick up. Exports have increased and I hope that this will increase further. New product development is now going on at the same pace in POI text which it was going on BCF all these years. So a lot of new projects have been initiated here and some of these are shorter lead time let's say 12 to 18 months type of projects and that can help us to further to fill up the capacity, but it should also help us to de-risk the business. New operational improvement initiatives have been taken up, the free time lockdown was utilized to the fullest by our team. Generally in a situation when the plant is shut down and restored, the operational numbers look very bad for about 15 days to a month. At this time we have reached near peak operational parameters in whatever lines are running with significant scope to improve further. Local sales guys and channel partners are telling me that things are starting to pick up although slowly but things are starting to pick up in the local market also. On the BCF side, the business has held up fairly well. Order inflow is about 60 to 70% of normal, but the plant has been operational at full capacity in the middle of May, let's say since we started. It takes 10, 15 days to ramp up the capacity. But as soon as we started, right from day one you can say that, we are running full. We started in April, towards the end of April when the lockdown was released. But we ramped up and let's say since May we have been running full. This is because of the pending order books before the lockdown, but in order to maintain running at full capacity, we will need to have the order inflow pick up. Generally carpets which is a part of the home improvement sector has seen better demand than apparel and as many of you track many sectors and it would be interesting to hear from you also. But, I would imagine that many of you have experienced this in other industries where home improvement is holding up better than other discretionary areas.

The good thing is that the strength of our relationships got tested during this lockdown. And I am very proud to say that none of our customers canceled a single order or dishonored any contract made pre COVID at pre COVID prices, the oil prices has crashed like anything and with it the raw material prices have also softened. But fortunately, even those customers who had placed orders before they've all held up their end of the bargain and none of them have canceled old orders. PD activities are on full blast and I remain hopeful new customers and programs. Hopefully god is kind in the lockdown itself. Comfeel demand is also picking up. So if you remember, Comfeel was a new product that we had introduced a couple of years back and after a lot of hard work, one of our customers in Asia Pacific he is getting a very nice response from the end user market and this is now we're starting to get inquiries from other's, that's a sign of that product taking notice, taking everybody's notice.

On the Palghar side from a plant perspective tremendous progress in Palghar through the course of the lockdown. Tremendous cost savings has been unleashed from areas like consumables, manpower productivity, operational efficiency, procurement, every area, almost all consumer prices have been renegotiated downward sharply as a result of adding new vendors. In the pre COVID time things were going at a certain pace and adding new vendors is always a painful process. You need to take trials and there is a certain amount of risk involved, in terms of the quality. So, you need to go very slowly and steadily. So, it is not happening at the same frantic pace before, but in the lockdown period we have accelerated this progress and in fact some of our existing vendors itself when they hear that their competitors are offering lower prices, it gives the chance to renegotiate the prices downwards. While the savings will take six to 12 months to achieve, slowly steadily as the time goes by more and more savings will get achieved. These are likely to be more on an annual basis than that last year's Palghar plant EBITDA itself. So, this will mean a significantly lower breakeven point, it will permanently bring down the breakeven point of the plant. The business is operating at one third of standard right now as compared to Q4 performance. Let's say in May, we are operating at one third and it is expected to be roughly 50% in June.

Over here we have significant domestic exposure which will take some time to revise. So, basically the local ethnic wear market at present is a flat line compared to pre - Covid 19, but hopefully it should start very soon. Honestly, however these are the challenges that we are facing in business even before the lockdown despite the sorry, demand situation. I am far more confident about this business today than before the lockdown. This is simply because of all the good work that has happened in the last two, three months. In this way, I mentioned to our plants at there, likely three, four, five years of cost savings. I've been – 16:41 in a quarter of a year alone in this lockdown period. Overall we can expect that results in the next couple of quarters, but I see the situation on the ground improving slowly and steadily. And I will not be surprised again, at the cost of something like a broken record with the kind of work that has happened in the last three months if we are able to execute this, I will not be surprised that we will actually look at COVID as a blessing in disguise, as something that actually helped the business rather than disrupting it. Of course, in the short term, it is painful because the results aren't healthy as before. But as we ramp up, once we get closer to the full capacity, I will not be surprised if we think that it was a blessing in disguise. So with that, I hand over to all of you for questions.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Mr. Yogendra Swami an Individual Investor. Please go ahead.

Yogendra Swami: Sir, in past if I look at your numbers, we have been able to clock very good ROC numbers of 15, 20, 24%. But in last couple of years they have come down to single digits, low single digits, and they are now below your cost of capital. So, any thoughts on how you're planning to take these back up because with these levels sustaining a price basically destroying value. Whereas in past you have mentioned time and again, of how you want to create value for the company as well as the shareholders. So your comments on this sir?

Abhishek Mandawewala: Okay, so we have to look at now, instead of looking at it on a pre-lockdown level, let's look at it on cnsolidated level. So if you go through some of our last con calls, you must have seen that there were 2-3 key initiatives or key areas where we were planning to improve our return ratio. So, it was driven by improvement in volumes. There was a lot of productivity initiatives, which we have taken up in the company because of which the same line without additional investments were able to give us higher business & higher volumes. Second was the improvement of margins, which was starting to play out as you can see from the exports, we have almost touched, close to 50% if you remember in 2016-17, we were at about less than 20% and the third lever for us was the costs initiatives. So, all these three combined and many of those were also had already started to play out the pre-COVID and they will actually be now on steroids in the post COVID world. So these three levers still stand and all of these three areas are still alive and kicking and let's say as the thing start getting back to normal, all these let say levers will start kicking in and we can expect much significantly healthier numbers as compared to let's say what we had seen in FY 17 or 18 or 19. By no means, the last year's numbers were the peak efficiency. But of course, until the things get to normal, possibly we are going to see bad numbers, but once it will we go back to the same three levers that we were talking about earlier.

Yogendra Swami: Right, understood. And sir if I also look at your cash generation for the year, we have been clocking healthy numbers of 70, 80 crore of cash every year. And now if I go back to your commentary we are done with most of our CAPEX. So going forward, is it safe to assume that a major chunk of this will go to repayment of debt or is there some more CAPEX that you still feel will come up going forward?

Abhishek Mandawewala: Minor maintenance CAPEX or some small debottlenecking will continue. But by and large all the major CAPEX if you see in the last four, five years we've invested between 350, 400 crore, most of the CAPEX is behind us and now we need the assets. So, there are too many levers in front of us, which we can pull without investing money to improve profitability.

Yogendra Swami: Understood. And sir one more question is on your raw materials front, a couple of months ago there was a news wherein anti-dumping duty was lifted on two of our raw materials, Glycol and Terephthalic Acid from China but, recently domestic players are still not able to import these and that's impacting the spreads. So, any specific reason for that or are we able to import these and we do see benefit out of it?

Abhishek Mandawewala: No, we don't consume PT or MEG, are our suppliers consume that, so I am not sure? I was speaking to a few industry participants until now, no price pass-through has happened. And since there are limited players in the local market, I'm not sure to what extent it will happen but the impact of that is not going to be significant for us.

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

Dhwanil Desai: So, three questions from my side. First one is we have seen a very significant improvement in our gross margins. So, if you can elaborate, is that mainly because of the product mix, kind of shifting more towards PCS. And how do we see that going forward once everything normalizes in couple of quarters. Maintaining this kind of a gross margin or any kind of RM gains that we are kind of seeing in this quarter which may not be there going forward, if can talk a bit more about that. Second, any rough indication as to what kind of revenue we wouldn't have lost in the last 7, 8, 10 days of lockdown, where we were not able to ship the material or bill for the material that we ship, that is the second one. And thirdly, you indicated significant cost savings that we are kind of, we will to rest things normalize in Palghar and Palghar has remained a pain point for us, either in terms of the operation side or in terms of ramping up on the sales side. So, we earlier used to operate at 65-70% and the general commentary we got was that, a significant operating leverage is possible if we go to 85, 90%. So, now has that bar shifted lower and if so, what would be that number beyond which we will surpass the real numbers, 40, 50 & 60, what kind of ballpark number that you think will help us achieve earlier performance?

Abhishek Mandawewala: Okay, sure. To answer your first question certainly if you see, I will not comment on individual businesses but certainly you will see that the export percentage of the business is going up. So now we are starting to export a lot more yarn as compared to before if you go back to our commentary, I'm not sure if we were giving export numbers at the time but you would notice that the export was roughly 18, 19, 20 in that ballpark, and today we are doing, Himanshu if you can just come in what was the export of the last quarter exactly?

Himanshu Dhaddha: 46%.

Abhishek Mandawewala: 46%, so today we're doing about 46% I won't be surprised if this increases in the next quarter of course, it will be at a much lower base but we are now doing 46%. So a lot of this export, whichever area it is in, it's with good quality customers and in a strategic relationships and where there is mutual, let's say interdependence to a certain extent, of course nobody is invincible or it's not like my customer cannot change me. But it is better than the bazaar type of business, let's say the nylon business that we do which is much more commoditized it is better than that and there is a premium to the quality and there is a, to the good night sleep that we are able to provide to the purchaser who is buying our yarn and let's say with a 90 day lead time, 40-45 day sailing time and after he places the order we take 30, 40 days to make the yarn, then there is time on port and then clearing and forwarding on his port, sailing time so all said and done between 90 and 120 days, goes between him ordering and consuming the yarn. So in that 120 days, if you're going to have a bad supplier, and you have some bad quality of yarn, you come to 120 days later and by that time it is too late. Then you get into a very bad situation with a big problem for the customer who's buying on a 120 day lead time, they would rather prefer a good night sleep, a good quality than haggle for $0.02 or $0.05. So, fortunately it's not that all our export businesses are like that. But fortunately, to a certain extent we have been able to build some meaningful relationships to our clients and make no mistake, at the end of the day we need to be competitive. It's not like our client will give us any kind of premium, we need to be competitive, but it is certainly better than a totally commoditized market where the customer can just literally say your price is less or more by Rs.1 so let me just switch over. So, that is if you see even in the last four quarters, you will see that, that number has gone up, that export number and that is some of it is from textiles, some of it from BCF, some of it from Palghar, and that is what is contributing to the better let say margins. Your second question was with respect to that eight days what we had lost. So, I tell you, our businesses, as you know every additional tonne gives us, disproportionately higher profitability so that eight days loss is quite high. And, we would have achieved record EBITDA numbers or close to record EBITDA numbers in the company's history. Had we had those eight days and we had been able to dispatch those yarns in those eight days. In fact, even few days before those eight days we were not able to book the sales because of unavailability of BLs, etc. So, there were issues at the port, days before 8 days goods got booked in April and not in March, despite the dispatch happening. And your third question was with respect to Palghar. So, in Palghar, just to give you some examples, as chemicals as how we are able to achieve these savings. Chemicals is something which we had never imagined that we will touch, change and we will add new suppliers, but as soon as we went out into the market we were able to realize huge sales. See when the plant just started, we thought that with this little business that is available, we can afford to let's say try some new suppliers and in a very careful manner. Therefore, we did a series of trials across our chemicals and hence got new vendors approved. And on the basis of same, we went back to our existing vendor and showed them the real scenario and in some cases we introduced the new vendor. Similarly we were able to do the exact same things and did savings on Dye. There are vendors that we had not considered before as we didn't want to change the sources but when you're back on to the wall then you need to take some actions (Cost Savings). Earlier getting the business was our utmost priority, but when your plant is operating at 30-40%, you get enough time, then you use that time wisely and these are the some of the exercises that you can you initiate and do cost savings. Labor productivity again, we had a discussion in the plant and the plant people themselves they came up with the initiative that we need to get leaner, we need to bring our cost structure between 20-25% not at the company level but in some individual departments, they said that this is how we will operate, and I asked them that look, when once the business gets back to normal, are you going to get all those people back because then it's not worth doing all this exercise. And they said no, this is a way that we can operate and that leads to savings that you would never imagined before. Then the third area is raw materials, many of the raw materials linked with oil they have reduced of course, they will fluctuate and even our finished good prices goes up and down along with it but again we have been able to see some good saving. There the operating parameters, so for example, there is something in dyeing called right first time. So, it tells you what is the percentage of batches that you got right in the first time and how many batches you have to take for correction. We were operating at between 91-92%, now suddenly in this lockdown we have found a different gear. And, in my history of five years, we have never crossed 92-93% and in the last 15 days, we've operated a 97%. And, just some small minor tweaks and that 97% makes a huge difference. And I've got 10 other stories like this which I can tell you, which has been able to, which will significantly let's say bring down the overall cost of the plan. So, my estimation is that, if the breakeven level was 100, let say our new breakeven level will be close to 80. So, our breakeven level of the plant will reduce by at least

20% if we are able to successfully see some of these initiatives. Some of the examples I gave you, these are just the tip of the iceberg. I have got an entire 30-40 slide presentation which I review on a weekly basis on a series of such kind of initiatives. So, I hope that answers all your three questions.

Dhwanil Desai: Yes, great to hear that. Just to follow up Abhishek. So, you think most of the gains that you made on the cost saving side on Palghar, is sustainable the supplier switch and all those things?

Abhishek Mandawewala: Absolutely. Of course now, tomorrow if the chemical prices itself go up because the oil price becomes from $30 to $80 dollar, then it's again a different story. But we are realistically been able to introduce new vendors and what tells me that it is sustainable & he cannot reduce the prices further. So that tells me that the fact that we are added that new vendor has brought our overall costing down. So even though the oil price will go up, even if it goes up and even if the chemical price goes up in the future, there will be still some significant savings which will still remain with us as compared to sticking with the old vendor.

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

Rohit Balakrishnan: So, just a couple of questions. So as you mentioned, that in terms of our business makes us significantly change towards exports so I was just going through my old numbers, and I was comparing the recent numbers. So, our export sales have grown by about 17, 18% annualized over the last five years. However, the domestic non-export sales have almost, have broadly declined. So do you see this trend, continuing in the sense that more and more export sales will be there and domestic sales will sort of be flat around these level? Not immediately, I understand this year and next few quarters will be difficult, but I'm just saying if one takes a slightly longer range view let say two, three years out, would you see exports even becoming much more and domestic sales sort of flat lining here, is that a fair assessment?

Abhishek Mandawewala: I am not certain I have never looked at it in that way. All I know is that we are trying, we have a goal to increase the export sales. So we are not sure as to what extent the domestic sales will come down / they will remain flat or they will also increase I don't know. But certainly our goal is to further increase the export sales. So don't forget that we are also having these productivity improvement initiatives that I have spoken about before lockdown and now to talk about that is pointless because the plant is operating at 30, 40 & 50% but at some point in time the demand will come back, even if it is 70%. See one thing I didn't mention in my opening remarks, is our plant is one of the most flexible plants, not just in the country but in the whole world. So in the POY line I am making FDY and in the FDY line I am making POY, FDY I am making mother yarn, in the mother yarn line I am making POY, in polyester line, I'm making nylon, in nylon line, I'm making polyester. So the flexibility that we have, allows us to achieve something better, for example, the general industry is 20 out of 100, I can be at least sure that instead of 20 I'll be able to do 30 or 40 because of the flexibility that I have. So, for example in nylon exports, the prices in the middle have declined, in the last year the nylon exports, they have become very competitive. So, we had brought the business down to negligible levels as compared to what we were doing before. And now again, after the COVID 19 because the domestic demand is not available, instead of now, running down in past my domestic competitors in nylon they were hardly running their plant 10, 15% level. But against that, I am able to go back to my export customers and run three or four of my lines on those products, at least I'm able to cover some part of my fixed costs instead of just keeping the plant idle and losing money. So, to that extent we will be much better off. So, long story short, export is always going to be the focus, because there is better quality of customers available there as compared to local that said that, even local there is enough niches available so we need to target those niches.

Rohit Balakrishnan: Thank you. So the next second question was, in terms of, in the last quarter you still said that the nylon segment, especially the domestic segment is still quite bad and it is as bad as it was in after demonetization, if I'm not wrong. So now obviously, with this whole COVID crisis, do you see that further extending, because what one thing that I'm sort of seeing is that whatever gross margin, one obviously we have had a very strong gross margin improvement, which I'm assuming is because of the exports, but there is still some sort of either below the gross margin impact that is coming because of nylon, because that kind of impact on EBITDA is still not seen. So, I just wanted to it's a two part question actually. So one is, do you see the nylon cycle maybe bottoming out, because maybe weaker hands in this because of this crisis going on. And the second question is combined, whatever improvement we've seen in gross margin in the last two, three quarters from 41, 42% to 48% the EBITDA has still sort of remained at. Obviously, it has improved significantly, but it's that kind of improvement is sort of eluding us. So just wanted your comments on these two things?

Abhishek Mandawewala: So first of all the EBITDA numbers that you see, they are not the real EBITDA numbers simply because in this quarter we have lost about eight days. And in the last quarter, if you remember, we had lost due to onetime cost incurred on Sabka Vikas Scheme, Himanshu was it last quarter or last to last quarter?

Himanshu Dhaddha: Yes, Last quarter only (3rd Quarter FY 20).

Abhishek Mandawewala: Correct. So December quarter EBITDA was hit by the Sabka Vikas Scheme, that was almost 4 to 5 crore and this quarter has been hit by the last eight days. So, if you adjust for those two things then EBITDA is higher and as for my commentary in the last two quarters, there are still a huge number of levers available with our business to further increase the EBITDA, the initiatives that I mentioned without incurring CAPEX. So, we were just, if you remember the last, so we have had four to five major disruptions, maybe a little bit more than that. But the last disruption was, let's say in October, it was October 19, or October 18 when the oil prices had suddenly increased to about 87-90 $. And then it suddenly crashed and the demand just basically came to a standstill in the country and at that time, that NBFC issue had also happened. So, hotel demand had come to a standstill in our business for almost a month. After that quarter, if you see the results in each quarter, they kept improving and unfortunately this COVID came at the wrong time, but had that not happened this quarter itself we would have seen fantastic numbers and things are only looking better from here. So, we will have to go back 4, 5, 6 quarters and hopefully this time the improvement of course, that will also be very much dependent on how quickly this COVID situation eases out. But hopefully, it will not take eight quarters or six quarters to get back to the same level that we were before. And also adding to that the things that we have done in the last three months have paid off in one way or another.

Rohit Balakrishnan: Sure. Just one question on this, on the nylon bit. Do you see this, the whole domestic situation because this was, this has been an issue for us for the last three year after 2016-17 when we had done, those numbers had helped us, but from there in a downward cycle so do you see that coming back anytime soon after the Corona crises sort of whenever this recovery happens?

Abhishek Mandawewala: Over the last five years I have learned that things are unpredictable so what comes from where you never know, we never expected this COVID to come after that demonic, and several things that we have seen I've stopped predicting. So, I cannot imagine and I don't want to imagine a scenario in which nylon comes back. If it does come back, it's a bonus, but sitting here right now it is pointless to imagine. One thing is clear, we are operating at near low margins. So, below this people will probably choose to shut down the lines rather than run, so what is the point. We are operating at fairly low levels and I don't know whether it is improved because there is like a Chinese reservoir is available. So, that Chinese reservoir is like, even if some local players go then Chinese reservoir fills in the gap. So, Chinese capacity is 10 times to India. So, unfortunately, our Indian government while on it, on papers and all we are initiating stop China, stop China, but the reality of the situation is that, they are not encouraging the anti-dumping duty and things like that. So, I would assume that the anti-dumping duty does not come and unfortunately whatever the situation in nylon will continue. So, we have two ways to deal with that situation number one is, try to bring down our cost to whatever extent we can and number two is to try to do the value added products which we have started in the COVID, we have started to look at few products that we have not looked at before which are contributing let's say better than the domestic market and which are not totally specialized, but which are not totally commoditize also. While over a period of time they will contribute more than the local nylon margins. So, try to debottleneck or de-risk from that angle.

Rohit Balakrishnan: So, just one thing. So, you mentioned, like one and a half years back, as you mentioned oil prices has suddenly short up and we had to face a lot of issues because of that and we couldn't pass on prices. So, given we have because of all the efforts, that all of you have done and has also is visible in the business mix, et cetera. If such a situation reverses, would we be in a much better position now today, given with our customers maybe pass some of the prices back to them. Are the contracts such are like that or the business is like that, where maybe we are as dependent as a customer as they are dependent on us. Would that be a fair assessment or that would not be a fair assessment?

Abhishek Mandawewala: So number one is that in October the problem was not the nylon prices had increased or the raw material prices had increased. The problem is that it increased and then suddenly crashed. So, it increased also suddenly and crashed also suddenly, so people held off the purchasing, that's why for one month there was no demand. So, in general we were able to pass through the cost increases that we are able to get in the raw material, it's just that extreme amount of volatility makes customers nervous and they postpone their buying. So, even in the past, it's not like we have not been able to, rather even the most commoditized business when the raw material prices increase to a certain extent we are able to pass it on. So, it's not like we have to absorb that or something like that. So to a large extent we are able to pass on the cost increases, and I'm guessing that even going forward, if the prices increase, we should be able to pass that on.

Rohit Balakrishnan: Thank You

Moderator: Thank you. The next question is from the line of Ankit Gupta from Bamboo Capital. Please go ahead.

Ankit Gupta: Just wanted to understand out of our exports of 46% that we did in Q4, how much was for specialized product and you also mentioned that, some of them are not exactly specialized but some are short of semi commodity or commodity. So, let say out of our total export the 46%, if you can just give us broad breakup between specialized and sort of commoditized products?

Abhishek Mandawewala: I have never given that breakup in the past. And, I don't think I want to give it right now, but I can say that, you can see a clear link between exports increasing and margins increasing. So, it is clear that let's say on an aggregate level, the exports are of higher quality as compared to local business.

Ankit Gupta: Sure. So let's say, basically the growth in exports will largely mirror with the increasing proportion of specialized products is what we can say, not exact but the trend would be like that?

Abhishek Mandawewala: Yes, absolutely.

Ankit Gupta: Okay. And we have always been talking about BCF being largely specialized, but nylon and polyester also we have been saying about, increase in proportion or specialized products, so if you can talk about how this journey has been over the past two, three years in the nylon and polyester segment and how do you see, since BCF what we can understand has become largely specialized. So how will be the trend for the textile sector, nylon and polyester going forward let say over the next one to two years, especially mix when the situation normalize?

Abhishek Mandawewala: So, the first question is with respect to the last two years so, we've had lots of ups and downs when it comes to the polyester and nylon part. So, we've tried many things, we've failed in many areas. A couple of areas where we've been successful and I have spoken about them in the past and we still continue our journey in those areas. One is the industrial yarn, so there we've been able to create a wonderful niche for ourselves, that business has gone from zero literally it was a blank piece of paper to good 120-130 tonnes every month and that will only increase, there is no concrete plan but we are discussing amongst ourselves that how we can increase the capacity of that without incurring CAPEX so there are a few ideas that we are trying with. If you see even the automotive volumes they have increased in the last four or five years so, that is another area that we've been able to successfully add customers and we continue to add customers, even in this lockdown we have added a couple of customers on the automotive side which is very healthy and this is all based out in Europe. These customers they are world global players, having 60, 70 plants all over the world and they only buy from European companies as far as I know. They have never considered an Asian supplier in the past and we will be the first Asian supplier in many of these businesses that we are cracking and they look at us with such skepticism. But they're also so delighted when we are able to see through their expectation and there is a big opportunity. So, apart from that, we had dabbled with some semi commodities in the past. But, with the prices coming off, we decided to hold off as we are looking at that space again, this time and that semi commodities we will go one step higher. Let's say even in that semi commodity it will be slightly more specialized as compared to the products that we did last time, hopefully the prices will be much better in these areas as compared to before and there are two, three new innovations that lockdown has helped us to come up with and I'm hoping that, I've spoken to a few channel partners with respect to those innovations and they seem to be excited, again little bit longer gestation, but that's between 12 to 18 months but if it works, it could be very very interesting for our company with 100-150 tonnes opportunity. We've had ups and downs, we've not made progress at the same pace at which we want to, but, we still have a lot of opportunities in front of us and we won't give up we'll continue to work on them, more today than before COVID.

Ankit Gupta: Sure. And, out of our export or let's say the specialty segment that we have, how much of that proportional on overall if you can just give us a broad highlight, how much of this specialized products will we have some long term kind of arrangement with our customers where there is some fixed quantity that we supply to them on an annual basis and the prices are also linked to raw material where there is like three months or six months raw material price change pass through which happens?

Abhishek Mandawewala: So a good part of that exports & not all of the exports, but a good part of exports is the kind of business that you're talking about.

Ankit Gupta: Okay, and you have long term contracts with the customers for that?

Abhishek Mandawewala: I won't call it a contract if there is no written papers, but it's an agreement of one kind that we work on formula pricing with them.

Ankit Gupta: Okay. And out of the product that you will be supplying to your clients, how many other suppliers will be there for the same product globally?

Abhishek Mandawewala: Hard to answer that but typically what clients do is they I generally understand because whenever we tried to win an existing business from a client, it's very rare that a client gives us an existing business and he changes his current source in an existing program. They don't want to play around because it is a matter of colors and some small changes can lead to big problems, because for example if you have a carpet which is on the floor and one segment of the carpet needs to be replaced that you bought from a different supplier and the color is slightly different, it's of course very difficult to exactly match 100% the color, even if it is 99.5% there is still some difference. So, if one segment needs to be replaced, then that can lead to complaints, so generally and it's not with all customers, but with many of our customers, it's very difficult to win business in an existing program, where you get new businesses is when the customer himself is developing something new. So, to that extent, I don't know if I'm able to answer your question.

Ankit Gupta: So, I got that. On the BCF side, if you can tell us how are the expanded capacity performing now, have they also reach optimum capacity utilization, the new expanded capacity?

Abhishek Mandawewala: As I said in year opening commentary, right now the plant is running full & it's been running full since the time that we started. But, the order flow is at let's say 70%. So if the order flow does not improve, then ultimately we will operate at 70%. Right now the old orders are continue to help us, if right now the old orders are supporting us, but in order for us to continue to run at 70% we will need to have the orders also going back to 100%.

Ankit Gupta: But has there been any improvement in the order inflow and for inquiries over the past two months?

Abhishek Mandawewala: Yes. April was very lean but in the month of May, things got much better and in the month of June they've also improved slightly, I we hoping that in July it will be much better. Almost all our customers now, who had held orders, they have started reordering. So some of them have old inventories which they're picking up. Some of them have given us the go ahead that our old order please start manufacturing, which has earlier asked us to hold manufacturing. And some of them are even one step ahead, they've consumed all the old orders and they have placed new orders. So, different customers are at different stages.

Ankit Gupta: Okay. And now no problems on the logistics side that they are facing?

Abhishek Mandawewala: Logistics is still a problem. But I don't think ultimately it's an operational problem but ultimately we will dispatch everything. It's not like the plant will shut down because we are not able to arrange the logistics or something.

Ankit Gupta: Okay. Just last question from my end, after this moratorium end, how much is the scheduled debt repayment for us in the second half of this year?

Himanshu Dhaddha: Overall it is 30 crore for the year.

Ankit Gupta: Okay. So let's say somewhere around 15, 16 crore we still be paying despite the moratorium?

Himanshu Dhaddha: Yes. Total for the year around Rs 30 crore.

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

Dhwanil Desai: So, these are uncertain times and nobody knows how the situation is doing going to pan out and we reasonably descent amount of debt on our balance sheet. So, Abhishek and Himanshu if you can throw light on, how do we look at our business from balance sheets perspective, do we see changes out there and what are we doing to tackle the balance sheet side of the business?

Himanshu Dhaddha: So, for the short term if you are asking about the liquidity, company has taken steps to ensure adequacy of the financial resources of the company's and banking facilities are also remained intact and as I said earlier, the company is also well moratorium of the term loan. So, as I know there is no liquidity concerns as we have on unutilized bank limits available and recently we are also been granted additional COVID loan as per RBI guidelines. And the banks have been very supportive with us, they have been able to provide the adequate funding. And the company also has the ability to actually grow more funding if required. So, from liquidity point of view, I don't foresee any issues relating to servicing of the debts or financial arrangements. In terms of long term improvement of the balance sheet is concerned. So, last year if you will see our all ratios have improved as compared to last to last year, whether it is net debt to EBITDA or debt to equity or other ratios and all. And in this year in the first half these will be under stress, but on the second half they will see improvement coming in and probably this year might be for every company, it is not about the ratios, it's about more of business coming back to normalcy and liquidity management rather than ratio. So, but that FY22 I believe will be much better than FY20 also in terms of terms of small ratios or balance sheet front is concerned because we don't have any major further CAPEX to be invested in next say 12 to 18 months. Also all the cash flows which we have generate will go for debt repayments. Balance sheet strength is going to improve in future & some ratios might be at the similar levels or might deteriorate in FY21 H1 part of FY21 or so, but that is okay. So by a large in a long term or medium term we will be able to improve our balance sheet state.

Dhwanil Desai: The only reason I asked this was because, we generate around 70 to 80 crore of operating cash flow and we have repayment liability of 30 crore on an annual basis and we have still availed moratorium. So, just wanted to understand the thought process that is there any ways that you're seeing on the balance sheet side or it's just that you want to preserve liquidity and that is why?

Himanshu Dhaddha: See, moratorium was announced in the month of March and at that time if you recollect, nobody at that point of time would have invested us how will be the impact of COVID and how much the amount of lockdown period will continue. So, at that time it is prudent to actually ensure liquidity out of business, because whenever you want to restart you'll have to have ensured your liquidity for the plant operations to continue. So and moratorium is what, if I am repaying this facility in five years, I'll be able to repay in five years, three months, to that extent I don't think so that any company would have actually not availed at that point of time. Now, if you look back about this decision, it might look that even if we would have not availed.

Dhwanil Desai: No, I'm not questioning your decision, just wanted to understand the perspective. So, what you're saying makes a lot of sense.

Abhishek Mandawewala: Just to add to that, so couple of things. One is on the moratorium, today we're in a situation where we don't know that lockdown will not happen again. Do we know that demand will pick back another 6 months or 12 months, so we don't it's such an uncertain environment, we need to take the most prudent action and if somebody is offering a helping hand, we need to make sure that we take that helping hand whether we need it or not. That's a second debate but the uncertainty that is there today, we should not be overconfident and say that everything will go as per, everything will be normal and everything will be fine in three months and we don't need this and even today that uncertainty exists. So, I feel that it was the right thing to do, whether or not we needed it, it was a right thing to do. There are so many people who call me and tell me that you should draw all your credit lines and incur the interest. It doesn't matter what you should draw your credit lines because some banks are only going to fail or some, many people said many things to me. But, at that point in time it was so uncertain that we didn't know what is going to happen in the future and it's not that all the countries their rate of decline or whatever that is called COVID, Corona whatever, not all the countries now, now we are sitting in June we see that Europe has become flat and et cetera, but earlier that was not the scenario.

Himanshu Dhaddha: Also Dhwanil, during the lockdown as you can rightly understand that your inventories and debtors and all go up so, even if you have the essence limit, but your non fund limit is available unutilized to a large extent because we are not able to or we are not utilizing it because we are not opening new LCs, but we have to honor your old LCs and your temporary cash flow is lock because of your inventory and debtors. So of course you will need liquidity so it is more of an overall year basis you can say that 70 crore as against 40 crore, but at that point of time liquidity is important.

Abhishek Mandawewala: The other question is on with respect to the debt, on is the liquidity part and one is the solvency part, so the solvency part the easiest way to answer that is number one, even in this situation, it's not like our net debt has gone up significantly, we will be close to where we were before.

As Himanshu has mentioned in the call and even hopefully, even going forward it will not increase significantly. Number one, the prices of everything has come down as a result of which the working capital itself has come down. And secondly, if you notice in the last five to six months and on operational level if you take out all these onetime hits, at an operational level we are operating at close to 10 crore EBITDA per month. So even if we are able to with all these improvement initiatives & if we are able to go to that 2017 level, then even it more than covers the interest and repayment part of it. So, Himanshu answered you on the liquidity part, I'm answering you on the solvency part. So in that sense the business is robust.

Moderator: Thank you. Ladies and gentlemen this was the last question for today. I now hand the conference over to Mr. Himanshu Dhaddha for his closing comments. Over to you sir.

Himanshu Dhaddha: Thanks everybody for attending the call. With your support we continue to work hard for the betterment of the company and drive towards the journey of profitable growth. Thank you very much, stay safe, and stay healthy.

Moderator: Thank you very much sir. Ladies and gentlemen, that's the end of conference call. Thank you for joining us and you may now disconnect your line.

……………………………………….