AYM Syntex Limited
Q2 FY 2017 Results and Other Business Update Conference Call
November 03, 2016

Moderator: Ladies and gentlemen, good day and welcome to AYM Syntex Limited Conference Call to discuss the Q2 FY 2017 Results and Other Business Updates.

On behalf of AYM Syntex Limited we have with us the key senior management including Mr. Abhishek Mandawewala -- Whole Time Director; Mr. S. M. Khire -- Director of Operation and the IR Team. As a reminder, all participant lines will be in the listen-only mode. 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.

I would now like to hand the conference over to Mr. Abhishek Mandawewala for opening comments. Thank you and over you to, sir.

Abhishek Mandawewala: Good afternoon, ladies and gentlemen, first of all, a very Happy Diwali and Prosperous New Year to everybody. Welcome to AYM Syntex concall for this quarter.

I am happy to announce our last quarter's numbers. Our EBITDA stood at about Rs. 29.07 crores, which was an 18% growth over same quarter last year. The sales were about Rs. 220 crores which was almost a flat number about a 2% growth over last year. In terms of tonnage we did about 12,962 tonnes which was about 3.50% decline as compared to the previous quarter which was Q1 2017 and a slight increase over Q2 2016. The EBITDA per kilo were slightly higher this time at about Rs. 23,000 per tonne as compared to Rs. 21,000 in the previous quarter.

Our PAT numbers have remained flat, they are almost the same, there was a 1% shrinkage at Rs. 12.06 crores this quarter. The net debt figure stands at about Rs. 200 odd crores this includes all the long-term liabilities and buyers suppliers credit all LCs, all short-term borrowings, net of all the cash and short-term investments so, that stands at about Rs. 200 crores which gives us a trailing net debt to EBITDA ratio of about 1.72 which is fairly healthy but we hope to bring this down over the next few years.

Last time there was a small concerned regarding debtors, I think there were some questions which were asked regarding the debtor figure and also why it went up so, debtor stand at about Rs. 55 crores versus Rs. 52 crores as of March 2016 and Rs. 32 crores as of March 2015, this increase of Rs. 23 odd crores from March 2015 is mainly on account of us stop, we have stopped discounting LCs which earlier we use to do, so, since our cash position has improved over the last 12 odd months, we have stopped discounting some of the LCs which earlier we use to do.

As of today, our debtors above 90 days stands at about Rs. 3.02 crores and above 180 day stands at about Rs. 1.04 crores so, if you add up the two numbers it is about Rs. 4.06 odd crores which is less then 10% of the debtors more than 90 days.

We made a small provision in this quarter of about Rs. 90 lakhs - Rs. 95 lakhs but we are hoping to recover full or part of that amount.

In terms of CAPEX, our calibrated CAPEX continues earlier projects, old projects have almost been completed. From a cash flows point of view there is still some expenditure left but almost all of them we have either order or awaiting delivery or it has been commissioned or, etc. but Project 5 which we had announced a couple of quarters back progress continues on that front also. So, far we have spend about Rs. 11 odd crores all of this expenditure has been via internal accruals only. So, while we have received banking sanction for this project in a debt-equity ratio of about 70 odd percent to 30%. But so far, we have not availed of any debt, the internal plan is to fund this project entirely or as far as possible by internal accruals and even if we end up taking debt we hope to repay some of the old debt so, in principle we are hoping to maintain the net debt level at Rs. 200 crores to Rs. 220 crores particularly because a lot of these investments are unproductive or they do not add to the top-line significantly, so, we want to be careful about increasing debt at this time.

There is another round of CAPEX which is expected after Project 5 we are working on this project as of now as a company. Again, significant part of this is likely to be unproductive again since we are fairly out of space with respect to available area to expand and to add machines. So, this means that barring some positive external forces we are unlikely to see meaningful top-line growth for at least next four quarters to six quarters.

In addition to that a apparel project that we have been working on, for now we have put on hold, we believe that it is important to work on our current business, improvement the strength of the current business before we take on an addition before we try to enter into an additional field.

While the growth will be limited over the next few quarters, but I think this is am important time for us and this is the time to actually consolidate and make our business a lot stronger then where we are today. As I have said many times before, the focus continues on developing new and better products and we are trying to enter few more segments where the barriers to entry are slightly higher, demands of quality are higher and this is the time which we are going to take in order to weed out some of the unwanted business that we have or the low margin or the low barrier to entry kind of business that we have, this is the time to actually over come and get rid of all these businesses. So, this is going to be an important next few quarters for us.

On the Welspun India issue, we have had absolutely no impact of all the developments that have happened with Welspun India. Our business continues as usual, in fact, last quarter we have done one of the highest ever sales that we have done so far to Welspun so, for us and I guess also for them it is business as usual.

In terms of the near-term outlook next two quarters to three quarters is looking pretty tough, it is looking a little bit bleak we expect a dip in the profitability as compared to where we are today, there are several external as well as internal factors which have come together. Some of these issues we had discussed in some of the previous concall, Nylon was an area that we have been talking about since the last few quarters over the last two months or three months clearly there has been catching up of competition and significant reduction in prices which are going to directly lead to erosion of the margins. There has been significant addition of capacity on this front and this being a fairly commoditized product the textile Nylon being commoditized it is supply demand game and it seems that since the supply has increased now the prices have started to come down.

Apart from that the emergency in Turkey has also hit us hard. We had some exposure in the Turkish market in some products particularly on the Yarn Dyed side and business has almost come to a standstill there.

Over the last month and half two months we have barely received any new orders, I mean the pipeline on that side is completely almost dry and as of now, the business as usual has not started and you know we have no idea as to when we can get back to normalcy possibly December, January, February, we do not know how long it will take.

Apart from that the Cauvery issue that had happened in south has had a small impact on our business, the truck movement had stopped for a few days and that has impacted our business a little bit in the south hopefully that should start becoming normal from this quarter or next quarter onwards. Similarly, the issue in Kashmir has also impacted particularly our carpets business there has been a curfew again with respect to movement of trucks and the orders have slowed down so, while it has not come to a standstill but definitely we are seeing some slow down in the orders on that front.

And Nylon we have already discussed the prices have dropped. So, together these three factors or four factors, I think that over the next at least two quarters to three quarters it is going to impact us in someway or the other.

While some of these factors are internal, there is a blame that we as management also need to take, we have not been fast enough in developing new products and commercializing new products to counter this effect of these external factors. But overall, I think this drop is going to be positive because it is going to further align the team towards new product development and all the more people are going to see the importance of having a diversified and a rich product mix so that these kinds of impacts do not affect us in the future.

So, overall, the direction of the company in my opinion is positive and I would like to open the floor to any questions that anybody has.

Moderator: Thank you very much. We will now begin with the Question-and-Answer Session. We have our first question from the line of Ravinder Singh from Matrix Investments. Please go ahead.

Ravinder Singh: Sir, as you said that we have a debt of around Rs. 200 crores, at the same time we have investments of Rs. 25 crores and cash of around Rs. 21 crores. So, what are your comments regarding debt and how do we are trying to use this cash going forward?

Abhishek Mandawewala: So, right now we do not have any immediate plans to use this cash, I think part of this cash has been kept in the event of any rainy day that might come in the future but as of now we have no plans to use this cash. The Rs. 200 crores is including that Rs. 25 crores so, the Rs. 200 crores figure is actually the net debt figure.

Ravinder Singh: Okay. So, it is somewhere around Rs. 250 crores.

Abhishek Mandawewala: Yeah, so if you take all the short-term and long-term it will come to about Rs. 245 crores to Rs. 250 crores.

Ravinder Singh: Okay. And going forward this can increase to Rs. 270 crores or Rs. 280 crores as we implement the Project 5 and the other expansions?

Abhishek Mandawewala: Yeah, we are hoping to keep the net debt at around where we are so, internally we have set a guideline for anywhere between Rs. 200 crores to Rs. 220 crores so, we are calibrating the CAPEX accordingly we do not want to go overboard.

Ravinder Singh: Sir, why do we call this Project 5 and the other CAPEX is unproductive like why to make it is a substantial amount of Rs. 50 crores or Rs. 80 crores as mentioned in the last concall also. So, what exactly is this used CAPEX?

Abhishek Mandawewala: See, we have several businesses particularly in the Rakholi plant and we have got spinning, texturizing, we have got the BCF, heat setting cabling, so, there are lots of different types of equipments that we are operating and currently whether we talk about spinning whether we talk about texturizing, whether we talk about BCF, heat setting cabling, we are totally out of space so, all the space that we had in the plant has been completely utilized and in order to further grow capacities from here we will have to significantly invest in building, so there are two options here either you go one at a time and try to squeeze equipments as an when the space arises or you try and keep a five years to seven years road map and in that case you will have to go in a planned fashion and in some cases in order to make that your layout is proper and your investments are planned properly you will have to make some upfront investment in order to make the space available for further. So, we are currently working to develop a warehouse so, the warehouse is significantly expensive we will have to build a spinning building, we will have to build a BCF, we will have to build a heat setting cabling business, we will have to build a new building for texturizing so, it is situation where almost everything has come up together at the same time so, this is one of the reasons it is looking like a big sort of CAPEX which has come at the same time and now apart from that there is a significant investment which is also happening in lab and R&D so, a lots of investments are happening in pilot lines for example which are single position lines or let us say testing equipment small fabric making machine which allows us to make customers product so that we can test them in-house. So, these investments are also significant and given the new direction of the company it is essential that we make these investments today. So, together when you add up everything it looking like a big amount but it is essential that we make these investments today.

Ravinder Singh: Sir, so we can say that Rs. 50 crores is only the building Rs. 50 crores to Rs. 80 crores?

Abhishek Mandawewala: See, I cannot the exact figure, there are several things but I can say that a large part of this Rs. 70 crores - Rs. 75 crores is going to warehouse or building or R&D. So, it is not 100% unproductive, there are some new product lines also in both Project 5 and the Project 6 also that we are currently working on there will be some new lines but majority will actually be these kind of investments.

Moderator: Thank you. We have our next question from the line of Manoj Dua, an Individual Investor. Please go ahead.

Manoj Dua: Sir, quite few concerns you raised in the opening remarks and you were earlier also telling about the competition growing up and the margins will be squeezed in commodity products of Nylon and Polyester. So, my question is what step we have taken to decrease this effect of the competition and how much successful we are in that? For example, how much was the specialized project last year percentage of the ale and how much is that today? And my second question even this type may be you call a tough period, so, much is our protected sales and the margins even in most toughest case? Thank you.

Abhishek Mandawewala: It is a good question. So, by next quarter I think we should be able to give you figures as to break up of figures what percentage of our sales is coming from innovations, what percentage of our sales is coming from specialized products or products where there are higher entry barrier as compared to regular products. So, certainly our business mixed, we have a certain exposure to commodity products also and a good percentage of the business is also coming from segments where there are certain entry barriers competition cannot just add lines and take share away from us. Endeavor is to add more such business, work is going on multiple fronts, one is there is a drive in the company for new product development so, a couple of, we are trying to commercialize several new products. Now, the reason why I do not want to talk about these products openly because many of these products are currently under commercialization we do not know how successful, they will be some might succeed, some might fail but certainly I believe that we are moving in a positive direction on that front. So, certain new products are under development, the other thing that we are trying to work on is exports so, there are certain customers outside of India who have a higher requirement of quality and they have certain entry barrier kind of thing where you cannot just add a line and you cannot just take business by reducing the prices. So, there are several such customers that we are targeting in certain segments which are more sensitive which will allow us to build a business which is not just commoditized it will be more long-term in nature. So, this is an endeavor that we are taking up not just in our BCF business but also in our textile business. And finally there are certain segments of markets that we are focusing on both in BCF as well as textiles, which are more sensitive in nature and whether be it in India or be it outside the competition in these segments are less because there are certain peculiarities of these products and by being present in these segments again we hope to have a longer-term business with higher margins going into the future. So, these are two or three of the things that we are trying to do in order to come out of this commoditized business.

Manoj Dua: Okay, let me rephrase my second part of the question. Basically, as a shareholder we look for the growth and the profitability but at the same time when we see the competition we try to analyze what is our protected sales, how much even if it would go bad, the sales could be there how much of the margin could be there in the tough time.

Abhishek Mandawewala: I do not quite understand your question, what is the question there?

Manoj Dua: Yeah, the question is basically sir, the margin competition is increasing and already there is pressure is there in terms of margins. So, do you feel the present condition is around the bottom in terms of margin or it can deteriorate further? How much our company will do even in the case of the tough time?

Abhishek Mandawewala: No, I do not want to venture out and give a projected kind of figure. I can tell you the time is pretty tough right now. I the do not know, I do not know how far below the margins can go certainly it is not tough in all the businesses there is one part of the business particularly Nylon where we are facing issues with margins, rest of our business I think more or less it continues as usual. But in general, I will say that, I will not like to predict what it the bottom, what can be the worst case scenario, etc., so, all I can say is that we would like to prepare for the worst.

Manoj Dua: Okay. And my last question is doing some new CAPEX which you said unproductive in nature, will we classify it as a new project that our all the amount we are spending will be used a work in progress and depreciation and interest would be added to that new project or it will be just capitalized depreciation and interest would be of that project will be started means will be taken in P&L?

Abhishek Mandawewala: No, we go by the standard Accounting Standards as and when the project gets commercialized or as it is commissioned it comes into the balance sheet and the depreciation starts.

Moderator: Thank you. We take our next question from the line of Ayush Mittal from Mittal & Co.. Please go ahead.

Ayush Mittal: It is good to see your consistent performance from the company despite growing competition. When we look at the competitive land escape we are seeing that several companies which are pure Polyester yarn companies FDY companies, texturizing companies are doing pretty well at this point of time and their margins have expanded so, there is a related question that when the delta expands for the base product, commodity product, how dose it effects for the value added products that might be doing, should not that also expand for you which we have not seen in this quarter or so?

Abhishek Mandawewala: I do not think I mean I do not know if there is any direct correlation between the two businesses so, a lot of this commodity business goes in certain segments of the market and many times these segments are no correlation to some other segments where there is more sensitive where there are more sensitive customers so, I do not know if there is a direct correlation between margins in the commodity business and margins in more sensitive areas so, I am not certain if margins go up over here it will directly impact margins elsewhere. See, in the commodity business it is basically a supply demand gain and sometimes there is higher demand in certain products and the supply is loss so, prices shot up and many times there are no entry barriers in many of these businesses and in six months may be another competitive expands his capacity and the margins then start leveling out. So, whereas in some other businesses which we are trying to aim it is not simply a supply demand situation there are certain approvals that you need to gain, there are certain hoops that you need to jump through, there are certain standards that you need to qualify for and certain quality of products that we need to make before you can actually supply to these customers and many times they are independent of what is actually happening in the commodity market so, I mean that is my view.

Ayush Mittal: Can you give us an idea how much of contribution in the turnover we are still getting from products such as FDY, texturizing and the Nylon segment on which you are fearful on the competition?

Abhishek Mandawewala: So, by next quarter we should have a meaningful figure to give you, where we can say that this is a business where we feel that margins are more long-term in nature, this is the business where we feel it is more commoditized but one thing I will caution you against is just because the product is texturized or just because the product is Nylon it does not make commodity, when I say Nylon I just talk in general, our exposure is more in Nylon towards commodity we have certain value added products also. But in general our exposure is more towards commodity that is why I say Nylon is more commoditized because our exposure is more towards commodity but in general Nylon does not equal to commodity. So, when you make a texturized product it is not automatically commodity. You can always make some value added texturizing product many of which we are today making so, I will caution you against coming to that hypothesis. But by next quarter, I should hopefully give you some figures.

Ayush Mittal: How much was the export turnover in this quarter or any number on that?

Abhishek Mandawewala: Hopefully by the end of the call I can share that number.

Ayush Mittal: Any new client wins or any new products which we have mentioned in past any success on that?

Abhishek Mandawewala: Yeah, so, there are couple of products which we have commercialized Comfeel where we have started to get repeat these are innovated products may be AYM, they are not available in India anywhere else but they have just started to get commercialize so, we executed trial orders, we first executed sample orders then we executed some trail orders and now we started to get small quantity of bulk orders they are not meaningful at all in overall pictures the quantities volumes are too little but we are getting a positive customer response so, only time will tell how successful these are whether it will be successful with everybody or few customers, etc., also a lot of new customers have been added particularly on the BCF side we have added a couple of important new customers, also on the textile side we have added a few customers and hopefully the next 12 odd months a lot of new customer addition should take place. I am hopeful the direction which we are taking it is a positive direction, it should make up for the loss of margins that we will have when we face with this Nylon situation and Turkey situation, etc.

Ayush Mittal: So, service these new customers as we do not have too much of capacity, we weed out the past business and do this business or we will need to do some CAPEX as we start getting volumes?

Abhishek Mandawewala: As I said over the next four quarters to six quarters, more of the business that will be added will be by weeding out certain unproductive or low entry barrier or low margin business and after that I think once we have our infrastructure in place and a better product mix in place then we can always add capacity and add lines. At this point in time, neither we have the place to add to lines and nor we want to add the lines because first we want to have a better product mix before we actually start adding lines in a big way. But at the same time in some small areas, in some way we are adding capacity so, one line here. One line there, one texturizing line here, one texturizing line there, few capacity additions are taking place to a small extent but nothing significant.

Ayush Mittal: And you mentioned our brand something like that any details on that?

Abhishek Mandawewala: You mean as a end consumer brand, you mean brand as an end consumer products?

Ayush Mittal: On Website there are Comfeel, Beleaf, Assura, Spinovate.

Abhishek Mandawewala: Yeah, so, these are some of our new innovative products, these are some of products which we are trying to commercialize so, for example, Comfeel and Beleaf both of these yarns we have recently developed and we have started to take trials with customers. In some cases we have started to receive some small sample orders trail orders, in some cases commercial orders are also. These are some business to business brands that we have, they are not consumer brands as yet but some of these brands are actually part of our innovative product mix. I am glad that you went through our website and took notice of this.

Ayush Mittal: It is a nice website now but in B2B brands can be there like these which can earn you better margins or something like that going forward.

Abhishek Mandawewala: See, as long as you are doing something different, the customer sees the value in the product, you can always have a little bit better margins as compare to your competitors and also if you are first in the market with some of the products so, many of these products, many of these brands we are actually first to the market particularly in the Indian market may be in the global context we might not be first in some of these products but in the Indian context certainly we are the first people to take this product to the Indian market so, number one that first move advantage is there. Number two, when you have done all the testing and when you are confident about what you are offering to the customer and the customer is able to see then certainly he will pay you a little bit higher than your competition. But right now some of these products which has a very low volume, very-very low volume almost an insignificant volume but they are absolutely innovative products for which we have no competition right now.

Ayush Mittal: But whenever you bring something like this new what is the biggest challenge? Is it the price, is it the acceptability from customer to make a meaningful impact, what is the biggest challenge and what is the opportunity?

Abhishek Mandawewala: it is several things actually, see it is number one, when you start with a new product the runabilty of that product, how you create that product inside your company because there is no prior knowledge which is available to make that product so, that is the number one challenge that how do you get the know how or do you develop the know how in-house proprietary so that you can make these products in the first place. After that you can make some amazing product but it has to be relevant to the customer so, the second challenge is that it has to be the product has to be relevant to a certain need of the customer so, for this product you need to identify a particular application or you have to identify a particular area where it can be most relevant because needless to say if you do innovation number want to sell the price, you want to sell the yarn at a price which makes sense for you. So, and needless to say if it is a new product where volumes are going to be small the complications are going to be there in the process and there is going to be proprietary the prices are definitely going to be higher. The third challenge is of course to convince the customer about the price benefit, suppose you are offering a new product so, is there a value behind that new product so, suppose your original product was Rs. 100 now you are offering a product at Rs. 120 so the customer has to get a value of Rs. 140 only then he will pay that Rs. 20 because then he is getting that extra Rs. 20 value, if he is only getting Rs. 20 then, it makes a very little sense for him to let us say switch over from the original product or take effort to develop because for him he is making as much as he is making by using the commodity yarns or using the existing yarn. So, several challenges exists and then he has to be able to convince his end customers we have a long supply chain so, we have got first let us say the netters then from the netters and levers it goes to the dying houses from the dying houses it goes to the garmenters it goes to the brands so, there are several people in the value chain and everybody needs to be convinced so, this is an extremely lengthy process it take several months sometimes even years before even the material will each the end customers and finally, the brand has to be convinced that this is something where we can offer some value to the end consumer so, a lot of things are there which we have to overcome in order to commercialize a new product so, that is why I am a little bit more skeptical and I do not want to give guidelines that we will have so many sales from innovations, etc., because we do not know honestly.

Moderator: Thank you. We take our next question from the line of Abhilasha Satale from First Global Securities. Please go ahead.

Abhilasha Satale: I just wanted to know what is capacity utilization for each of our business, for each of our segment? And how my like Turkey forms are part of our revenue like how much is Turkey is contributing to total revenue?

Abhishek Mandawewala: See the capacity utilization would say depending on different different areas BCF or Palghar or texturizing and spinning. More or less we run the lines full actually so, what happen when such a situation happens we are forced to move to certain less margin or commoditize products when we lose business. But, more or less 85% to 90% at least we are maintaining the capacity utilization in some cases even 95%. As far as Turkey goes I think, it is not a big part of our sales when it comes to our Rakholi plant business but it is a you can say about 10%

to 15% of our Palghar sales comes from Turkey. So, from Palghar plant angle it has actually impacted us.

Abhilasha Satale: Okay. And how much like Palghar is to our total revenue?

Abhishek Mandawewala: That we do not share ma'am, as of yet we do not share that.

Abhilasha Satale: Okay, sure. Sir, in terms of margins like although you have explain in detail that it will have some impact in future quarter or so, but is there any flow to that I mean would you be having any sustainable margin guidance suppose in the range of whatever like range if you could just give us, if you could share with us?

Abhishek Mandawewala: I would actually take caution and I do not want to give any range or anything like because then in a lot of cases we are venturing out into unchartered territory in a lot of cases we have never, a lot of business we have never done that before or we have very little experience in doing that business particularly BCF for us is only about four years old, so, we do not have an experience over an entire cycle or over long five years - seven years - ten years period of time. In any case, I would not want to venture out and give a figure this is sustainable margin or there are always certain external factors which will be there which throw your projections out of the window so, I would caution myself against giving out such a figure.

Moderator: Thank you. We have a follow-up question from the line of Ayush Mittal from Mittal & Co. Please go ahead.

Ayush Mittal: Basically, while going through the Annual Report we could notice that the R&D expense is very high. All of this is capital in nature or how much would be the revenue part which you would have expensed into the profit and loss account last year or in the current year any idea about that?

Abhishek Mandawewala: So, we will have to take this figure out how much is the revenue item but in principle, I can tell you that it is a mixture of both whenever R&D takes place there are two types of investment, one is where you are investing in the equipment where you are investing in plant and machinery which cannot be used for commercial production or it is unlikely to be used for commercial production and secondly, there is investment in running the line. So, for example in order to commercialize one Comfeel we have to take several trails and this creates a lot of downgrades wastages, material that has to be sold at low grade, as a low grade or as a cheap product at a discounted value and all this is part of our R&D cost and apart from that there is also salaries which we pay to certain manpower in the company and certain staff in the company which is part of the R&D team whose is sole job is run the R&D department let us say. So, it is a mixture of all things which contributes to the R&D expense.

Ayush Mittal: The manpower salary, the raw material cost anything, are we accounting on that part or not till now?

Abhishek Mandawewala: That will all come in the P&L account, regarding what we have capitalized I can get back to you as to what exactly are the details of those capitalized items. With respect to your previous question of exports, we are at about Rs. 38.04 crores of exports about 18% of our sales have come from exports last quarter.

Ayush Mittal: So, this has dipped quarter-on-quarter may be last quarter you did Rs. 43 crores.

Abhishek Mandawewala: Yeah, so, last quarter was about Rs. 42.97 crores this quarter was about Rs. s38.37 crores.

Ayush Mittal: And what the previous year number, do you have that?

Abhishek Mandawewala: Previous year 2015-2016 was about Rs. 197 odd crores, Rs. 196 crores .

Ayush Mittal: September quarter?

Abhishek Mandawewala: This I am talking about 2015-2016.

Ayush Mittal: September quarter 2015-2016.

Abhishek Mandawewala: No, this is the financial year 2015-2016, Rs. 196 crores. Our June quarter was Rs. 43 crores and September quarter was Rs. 38 crores.

Ayush Mittal: Okay. And coming to the R&D part question, like last year Rs. 20 odd crores was expanded, can you comeback if that was capital in nature and how much was capitalized and how much was spend through the P&L?

Abhishek Mandawewala: We can take this up offline Ayush if you do not mind, we can discuss the figure offline or we can share with you what exactly are the details of those figures.

Ayush Mittal: Yeah. and another question that I had as the crude price is bouncing back, dose that help increase the end selling price like it had depressed earlier?

Abhishek Mandawewala: So we have been discussing in many cases our prices are linked directly with the raw material so, in those cases I think this is an automatic follow through. In some cases we have pushed a little bit harder to get the price increases, in some cases we might not even be able to get the price increases if it is a little bit sensitive where we are already under pressure or something like that but it will be a mix of everything but in principal you can say that overall, the prices will move in line with where the raw material will go.

Ayush Mittal: And you had earlier announced about the progress of the expansions done in the dying capacity a new Nylon line in the BCF any updates on that progress sir?

Abhishek Mandawewala: So, BCF touchwood, our team has very-very hard over the last three months to six months and they have been quite successful in overcoming some of the issues that we had in the last year many of our customers are pretty happy with where we stand on our quality and we hope to add business there particularly in a challenging market even the BCF global market is quite challenging and in that challenging market we are hoping to add few new customers and that is a testament to the believe that the customer has the trust that the customer has in our quality. So, last I think few months the team has worked very hard and customers in general they are quite happy. In Palghar, I think it is a more systemic issue, it is a more a knowhow related issue so, there are the process that we have started to take, the new process, the new plan that we have implemented there are two ways to run the plant one is the older kind of way and one if the new way so, we can run the plant in an older kind of fashion without getting into too much technical details we can use that facility and we are using part of that facility in the older fashion but the challenge is to run it in a different way, the way in which it was meant to run. So, from that front, I think it is a more systemic issue it will take some time in order to resolve but in principal we are ready to use that new plant that we have commissioned and we have already started using it for certain customers order so, I would say there is as such no concern that is left in both the issues either Palghar plant or BCF.

Ayush Mittal: Another question I had was that the company has been since very long and the plant, machine, the employees and everything, many of the things would be legacy in nature. Any issues that you have seen which calls for impairment of the machines or something on those lines or bring about change in the culture of the company, any thoughts on these two lines?

Abhishek Mandawewala: Okay. So, the machines and the culture they are two different questions. I will answer the question on the machines first. So, absolutely you have pointed rightly that a lot of the machines are fairly old but our previous let us say over the last 20 odd years the senior management our Chairman as well as our ex-Chairman they have using their foresight they have invested in the best European and German and Australian and Swiss machinery and these are quite robust in nature and you know they have lasted so far and they are likely to last for also a long period of time so, while some of the machinery is old always there will be new developments in technology and you know suppose I am having an efficiency of 96% someone else might have an efficiency of 97% or something like that but in principle may of these lines they are operating in a proper way. There are certain cases some areas where we have small concerns nothing major where the equipments are quite old so, over there we might have to take a call that we want to scrap the equipment and go for a new equipment or something like that but I do not think there is anything major as such that we have anything in plans for the next two years or three years anything significant which is going to cause a significant CAPEX.

Ayush Mittal: Because almost Rs. 9 odd crores - Rs. 10 odd crores goes into repair and maintenance expense in your P&L.

Abhishek Mandawewala: Yeah, that will be continuing, so that is something which is part of our P&L so, we expense that out we do not capitalize that so, that is part of the regular routine maintenance which in many cases even a new plant will have so, if you maintain the machinery in a good condition that is an expense that you will always have to commit.

Ayush Mittal: Okay. On the culture part?

Abhishek Mandawewala: On the culture part, that is a fantastic question, I think that is an area I feel happy with the progress that we made in our company. See, historically large part of our business has come from commoditized area and even today good part of our business is coming from commodities and there is a certain culture and there is a certain mindset which is required in order to sell our commodity. In order to win in the commodity game, the entire focus has to be on the cost. But the new challenge that we have taken up as a company or the new direction that we are trying to take as a company cost is not the only area that we can focus, I mean cost is always important but quality is always going to be the number one criteria which is going to help the customer to decide whether he wants to do business with you or no. And this has a completely different requirement of mindset as compared to the commoditized mindset. So, there are certain way that you need to run the plant in order to be able to satisfy the demand of this customer and this is exactly what I am trying to talk about in the last few concalls that this is the kind of business that we need to gain and it is not just about adding a machine, it is about changing the entire way the quality system works, how you do the checking, how you control the process, so there are several things that come in to the factor in order to give the right quality of product to the customers that we are targeting. So, here we have been able to make good progress, a lot of mindset change has happened in the company, a lot of mindset change is underway. We have added a lot of fresh talent which have brought this kind of mindset to the company and we are hoping to recruit more people also and at the same time from top to bottom everybody is very aware. Everybody in the company is aware that this is the direction of the company so, we have shared our vision, as senior management we have created a five year vision and we have shared it to the last person in the organization even to the operators of the machine, even they are aware what direction we are taking as a company so, with that increased awareness that positive change I am able to personally see in the plant, I do not want to give a wrong impression, we have a long-lonog way to go particularly in Palghar also in Rakholi but particularly in Palghar there is a long way to go but the direction I am confident is positive.

Moderator: Thank you. We have our next question from the line of Rohit Balakrishnan from Rare Enterprises. Please go ahead.

Rohit Balakrishnan: Most of my questions were answered, I would be glad if you can also share the break-up of R&D expenses between P&L and balance sheet, that will be helpful. Just another question that I had was so, you flagged off that the margins may actually you are facing some headwinds on a lot of front. So, just want to understand has this the quarter that went by did those end winds were there as well or this is something which you think has accelerated since the last quarter?

Abhishek Mandawewala: I think very small part of that we could start experience in this October particularly but obviously some of this has been happening for the last three months or four months. But I think from this quarter we are going to see a dip, so, if you that answers your question from our current quarter onwards we are going to start to see a dip so, this quarter definitely there is a bigger impact as compared to the last quarter.

Rohit Balakrishnan: Okay. So, one related question is that if we look at our expenses also, we have increased like for example, our personal expenses have gone up from 5% to 7%, 5% was in 2015 and in the first-half it has gone to 7%, Similarly our other expenses have gone up from 22% -23% to about 27% in the last one and half years. Obviously these are investments that we are doing towards the kind of transition that we want to see. Given that we will see a dip in the margins, do we see that these investments will sort take a step back or do you think that this is needed to still continue that transition?

Abhishek Mandawewala: No, I think in principal our long-term journey will continue. I do not think that the short-term blips will make us move from our other part that we have chosen. Adding of talent and making sure that we have right people in the right places that activity will continue to a large extent we have created a new lots of new members have been added to the AYM family and I mean we have carried out a majority part of the journey already but I think a little bit more there is still some small part of the journey which is still left to be completed and in terms of some of the other things there are lot of activities that we are doing which there is cost to it in the immediate term but the return does not immediately show up. So, some of it will take time for it to show on the P&L but we cannot stop those activates in mid way just because there is some short-term impact in the profitability or anything, I mean those kind of things we will have to continue.

Moderator: Thank you. We have our next question from the line of Anand Jain, an Individual Investor. Please go ahead.

Anand Jain: My question mainly driven around innovation section that is see on our website we have around ten products listed here. So, (a) is that on what basis do we select the product? How does the entire process of selecting a product and brining it to market happens? And (b) is how difficult it is for someone to copy it?

Abhishek Mandawewala: So, you know there are several answers to that question there is no easy to answer it. But how difficult is to copy, it depends on various factors. In some cases the product itself are quite complicated and it can be quite challenging for someone to copy the product. In some cases the products can be easily copied. In some cases these innovations requires a newer type of customer to sell because the application demand it and those customers are not customers that will easily switch over. But in some cases those customers will easily switch over. So, part of this innovations will be it will be kind of a continues running process, I think many people they call it like, I think they call it the red queen effect. So, in some cases it will be that but our endeavor to a large extent is that we are trying to commercialize these products in areas where we are going to have a long duration of time where it can the margins can sustain for a longer duration of time where either the product is too complicated or quite complicated to copy or there is some proprietary know how involved or the customers are quite difficult in nature and they have certain requirements which are not easy to fulfill. But in some cases we will always have products which can copied within two years or three years. But in principal it will while the product might be easy to copy but you have to understand that in order to create this culture and in order to have this continuous flow a lot of things have to change in the company, the organization has to be set up according to that. For example, there are certain products which we are trying to commercialize now which we can commercialize because we have a certain kind of infrastructure in place which almost nobody has in the country. So, even if they want to commercialize those products, they want to copy our products they will have to invest in certain new plant and machinery which is very difficult to do in a new business. So, if it is an established product, established market, you can give that justification but if it is too newer product it can quite difficult for someone to justify that investment and then to come in and try to replace our business it will be always being a first mover it will always earnings at lower price as compared to where we are currently selling or where we will be currently selling. So, it is a mix of few things so some of the innovations will be copied, some of the innovations it will be more difficult to copy. But in general that culture will be very hard to copy. So, we have several product under development so, even if one is copied there is another product already in the pipeline and if it is copied by margin the margin is not going to reduce immediately the next day. So, it will take time before the entire market start seeing that product, one then second and then the third and then the forth, and then the fifth person copies it will not happen instantly. But in general some products will be easy to copy also. So, it is a mix of everything.

Rohit Balakrishnan: The other question that I had or the first question that I had how do you identify on what basis do you go for commercialization of a product? Do you see the opportunity size I mean what is the minimum opportunity size that you see for each product before you commercialize or you think of commercializing?

Abhishek Mandawewala: There are two ways, one is we do the inside out approach and other is the outside in approach so, in some cases our customers have asked that this is problem that we have, can you help us to solve this problem. So, we will try to develop a product which can help them to solve their problem. Or in the other case we will say that this is a product that we are making for this particular application or this is product that we are making here or this is let us say a new type of idea in what way can we commercialize this new idea. So, it happens in both ways. In principal, right now we do not have a very effective gate mechanism where we are saying that okay, below this opportunity size we are not going to commercialize anything because we are not in that condition so far. So, we have a lots of business which is coming from commoditized segments and luckily for us our business is set up in such a way that we are able to handle small lots also. So anything and everything that if we have something new if we have a novel idea anything and everything we are trying to commercialize it as long as it makes sense, as long as it makes commercial sense, so this is my thought on your question.

Moderator: Thank you. We have our next question from the line of Rukun Tarachandani from Kotak Mahindra Asset Management. Please go ahead.

Rukun Tarachandani: You mentioned that you expect a dip from here on in the quarterly run rate and largely because of the margin rather than Nylon but at the same time you are talking about your new innovative products starting to commercialize. So, is it fair to assume that when you are talking about the dip you are not in that projection not incorporating any major profitability boost from the innovative products?

Abhishek Mandawewala: No, I can safely say that these products many of the products that you see on our website also they are not going to form apart from may be a couple of them which have been commercialized for a little bit longer duration, you are not going to see major jump in contribution from these products anytime in the near future. As I said commercializing some of these products is a long drawn affair and it requires not only new product development but it also requires us to find a new set of customers which do not exists in our portfolio today. So, it is a two hold effort and it is a very-very time consuming, it is a very-very time consuming process. So, the dip that I am talking about it excludes this but I do not think you should factor that into your calculations or excel or whatever, you should not factor in that okay, you will get these extra sales from these new products that will take time.

Moderator: Thank you. We have a follow-up question from the line of Manoj Dua an Individual Investor. Please go ahead.

Manoj Dua: How much is the contribution of Nylon to the total sales in which we are facing a more competition?

Abhishek Mandawewala: As I have said before, we do not share the breakup of our various businesses but I can say that it one of the four important parts of our business today.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to Mr. Abhishek Mandawewala for closing comments.

Abhishek Mandawewala: Thank you everybody for joining in. Once again, wish you a Very Happy Diwali and Prosperous New Year. See you next quarter.