AYM Syntex Limited
Conference Call - Q3 FY17 Results
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Management: Mr. Abhishek Mandawewala – Whole time Director
Mr. Himanshu Dhaddha – Chief Financial Officer
Mr. S.M. Khire – Director Operations

Moderator: Ladies and gentlemen. Good day and welcome to AYM Syntex Limited Conference call to discuss the Q3 FY2017 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. Himanshu Dhaddha – CFO and Mr. S.M. Khire – Director of Operation. 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 press '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the floor over to Mr. Himanshu Dhaddha for opening comments, thank you and over to you, sir.

Himanshu Dhaddha: Good afternoon everybody, Himanshu this side. I welcome you all to the conference call on our company's behalf. Let me begin this conference call with a short update on Q3 results which is already in the public domain and updated on our website too.

AYM posted revenue from operations of Rs 176.6 crores for the quarter ended December 2016, which is a de-growth of around 10% from the corresponding quarter last year and around 14% from the previous quarter, this is partly on account of impact of demonetization. In terms of tonnage, we did around 10,324 tons which is about 20% decline as compared to the previous quarter i.e. Q2 FY17 as well as from last year's same quarter i.e. Q3 FY 16. EBITDA was at around Rs 18.2 crores, which is 10% of NR as compared to 25.5 crores (13% of NR) in Q3 FY16. EBITDA per tonne was also on the lower side this time at around Rs 18,000 per ton as compared to Rs 23,000 per in the previous quarter on account of capacities not being fully utilized. Profit after tax for the quarter ended 31st December is at Rs 5.3 crores which is 3% of NR as compared to Rs 10.6 crores 5% of NR for the corresponding quarter last year. There is some small reversal of the provision of deferred tax charge amounting to Rs 43 lakh basis the Q3 scenario as well as revised full year estimates. The net debt figure stands at Rs 208 crores as on December 2016. The net debt to EBITDA ratio as on 31st December stands at the reasonable level of 1.95 and we hope to bring this down over the next few years. Total debtors in the books stands at around Rs 47 crores versus Rs 52 crores in March, out of this, our debtors above 90 days stands at Rs 4.4 crores and above 180 days is about Rs 0.9 crores or so, which in totality is around 10% to 11% of the total debtors. In last quarter if you remember, we have made a provision for about Rs 90 to Rs 95 lakh for the doubtful debts, the same has been recovered fully and has been accounted for in this quarter post ancillary expenses. Just to give you the CAPEX update, our calibrated CAPEX on some of the old projects have almost been completed and from the cash flow point of view around Rs 16 crores of the CAPEX of the outflow is yet to be made which almost all of them is either being ordered or awaiting for the delivery. In terms of project 5 which we have announced a couple of quarters back, so far we have spent around Rs 15 to Rs 16 crores which was largely out of internal accruals.

On this information note, I will hand over this to my colleague Mr. Abhishek, who would provide some more details of the business in Q3.

Abhishek Mandawewala: Good afternoon everybody, I would just like to go through the business updates for the last quarter. I will start with the nylon business, which was pretty badly affected by demonetization last year. On top of the issue of demonetization, the raw material prices have also moved up in this area by about 40% to 45% in the span of about a quarter which is quite unprecedented in the history of let say the nylon business. Most of this business is actually cater to in either Surat or a bit of it in the North which all of the areas which were badly affected by demonetization, so many of our customer's customers you know who have been dealing in let say cash were actually impacted by this move by the government and thereby our orders slowed down. The lines were shut for almost half of number and almost all of December and let say in the first week of January; we restarted a few lines and the last of the lines which actually restarted only last week. We waited until January also partly not just because the demand had not recovered but also because the sharp move in the raw material prices so we wanted to mop up a part of the sharp increase before we started the line and committed extra volumes. We have you know this nylon business is the commodity side of the business and there have been excessive capacities available in the market now and therefore we believe that it is unlikely that the margins will come back to the level that they were let say 6 months back well before the demonetization period. In order to counter this needless to say as I have been saying over the last few calls, we have been working on let say new types of products also on the nylon side that will help us move away from commoditization but again needless to say we cannot expect any major breakthrough so at least in the next 1 or 2 years. On the Palghar side again business volumes were hit partly because of demonetization and also because of the export issues that we faced in Turkey about which I briefed you last quarter. This issue is likely to continue for another 1 or 2 quarters before things get back to normal, as yet our volumes are not back to the normal levels. Further in Palghar I think the operating leverage is extremely high and you know below a certain level of volumes, the profit gets disproportionately impacted. In terms of polyester business, I think its business is as usual, so I don’t think demonetization had a major impact. On BCF, unfortunately due an unforeseen circumstance, we lost about our 15 to 20% of our capacity for about 45 days last quarter and this was due to a manufacturing defect in one of our manufacturing lines. This has been rectified in the last quarter and you know from January onwards we have been able to get the full volumes. The quality issues that we faced few quarters back are completely now behind us and touchwood our customers have now started appreciating you know our quality levels. There are a couple of other updates, you know in terms of the shareholding some of you would have noticed that the promoter shareholding has gone down from 70% to 65%, this is mainly because of the arrangement between the promoter families. As per the notification of SEBI, about 5% shareholding of Welspun group has been moved from promoter holding to public holding, this is as per the original agreement. Mandawewala family now owns about 65% of the shareholding of AYM which is the promoter holding today. There is another update; there have been a few questions regarding the carpet expansion of Welspun group as some of you would have heard Welspun is going to be spending about Rs 600 odd crores in expanding their carpet and rug capacity. Needless to say you know we have between 10% and 15% of our sales, in some quarters even up to 20% sales to Welspun Group, now this carpet and rug expansion that they are carrying out will be accompanied by a backward integration of yarn capacity also, so it is expected that about 70% to 75% of the production that we do for Welspun will move in-house in to Welspun Group itself over a period of let say 12 to 18 months. So we are working in order to develop more business to keep the lines occupied at the time when it happens let say 12 to 18 months down the line. In terms of a general outlook I think things are little bit negative right now and we expect profitability to remain muted for the short to medium term. Business and product development initiatives needless to say are moving along but albeit at a slower pace but it is in line with expectation. See what we are trying to do is a complete transformation of the skin of the business and needless to say the results will take time to come. So with this, I would like to open the floor to any questions.

Moderator: Thank you. We will now begin the question and answer session. Anyone who wishes to ask a question, may press * and 1 on their touchtone telephone. If you wish to remove yourself from the question Q, you may press * and 2. Participants are requested to use only handsets while asking a question. Participants you may enter * and 1 to ask a question. We will wait for a moment while the question Q assembles. The first question is from the line of Dhaval Shah from Greek Capital, please go ahead.

Dhaval Shah: Hello Abhishek. Just one question on the carpet expansion, sir can you tell us like for the next 2 to 3, 2 year period once the Welspun plant is fully operational, how much business will go out of AYM to Welspun , any number you can give.

Abhishek Mandawewala: About 70% to 75% of the total businesses that we are currently having related party transactions are mentioned in the report, so about 70% to 75% of the business is likely to move back in-house into Welspun Group.

Dhaval Shah: Okay and sir why would that happened like, can't we capitalize on our group companies expansion and or is it in some new type of product.

Abhishek Mandawewala: I think this is something you know it is better to take up with Welspun Group but it is in line with their strategy to come up with their own line, so that they have a better control over the finished product and everything else.

Dhaval Shah: Okay and will eventually the remaining business also shift out or that will remain with us.

Abhishek Mandawewala: Right now, we have been given an indication of about 70% to 75% of the volumes so beyond that so far we are not aware of their plans beyond that.

Dhaval Shah: Okay, fine, thank you very much. I am done.

Moderator: The next question is from the line of Yogesh Jaswani, he is an individual investor, please go head.

Yogesh Jaswani: Hi Abhishek sir, my question is regarding the Welspun foray in to the carpet segment, so the part of my question was answered by saying that 70% to 75% of the business will go out, so my other concern is once their product is out in the market, will it hamper our BCA sale as in final goods, will it be a competition or what kind of product they are manufacturing.

Abhishek Mandawewala: Let me correct here, about 75% of the business will move out, 25% will remain within AYM. The objective of Welspun is to put to go for backward integration is for their own in-house supply, it is not expected that they will go out in the market in order to sell yarns.

Yogesh Jaswani: Okay, thank you sir.

Moderator: The next question is from the line of Ayush Mittal from Mittal and Company, please go ahead.

Ayush Mittal: Hello, yeah Abhishek and the team. I have a query that in the earlier con-calls, you had mentioned that you will be giving more details about the different segments of the business, like what is the contribution from the nylon or may be something like that.

Abhishek Mandawewala: Ayush at this point in time, we are not ready to give the breakup of numbers of our four main businesses.

Ayush Mittal: Okay and any update on the new products or any traction on the same.

Abhishek Mandawewala: So far in terms of volumes, I don't think there has been much traction but product development initiatives are on way. Sampling is happening at a quite heavy pace within the company but again you must remember that probably for every 10 product sample, probably 1 product will become commercialized, so you know it is not something that I am expecting to yield results in the near term let say 12 months or something like that, I am not expecting any major results but you know activity is going on at a frantic pace and sampling is happening also at a frantic pace.

Ayush Mittal: Like in the earlier con-calls it was mentioned that the new products can be significant only once they reach say 15% to 20% of the current turnover, any timeline that we expect for the same.

Abhishek Mandawewala: Very difficult to give it right now Ayush. I think it will be, you know the development process is little bit unexpected as I have been saying in the last few quarters, so you know difficult to commit that by this point new products will start coming but this activity has started full-fledged may be 12 to 18 months back and you know it takes time for us to visit customers, get them convinced about our capability, get them to start sampling with us, you know do the sampling, satisfy their demand then that sampling has to convert into bulk orders, this entire lead time is generally anywhere between you know it could be sometimes one year, it could be generally more on the side of let say 3 years so you know all this process takes a long time, so it is not easy to commit any time frame that by this time I think we will have so much sales from these products.

Ayush Mittal: Sir, if we go back to the earlier strategy of the company, even in the normal products of the nylon etc., what we used to do is some value addition or some differentiation by which we used to find the gaps in the market and be profitable. Till this is taking place, what are the efforts on the existing business to maintain the margins of profitability?

Abhishek Mandawewala: Sir, there are some businesses for example like the nylon business, where our customer base is quite commoditized so over here what we are trying to do is, we are trying to go out and find you know higher quality of customers, who have more stringent requirements and also customers where the margins we can expect is little higher may be the requirement is little peculiar so these kind of efforts are actually part of our product development initiatives and as I said earlier they are going on with a frantic activity within the company.

Ayush Mittal: Another question is that with the 10% drop in turnover, the profitability has dropped by almost 50%, so it is also about the high fixed cost structure may be the company is having and the competition which is affecting the margin. Any comments on both the parts like if you can differentiate.

Abhishek Mandawewala: I am sorry, can you please explain again.

Ayush Mittal: Like I am saying that on a 10% drop in turnover, the profitability has eroded by almost 50% which would be a factor of competition plus the high fixed cost structure that you might be having, you could not decrease your cost as per the decrease in demand.

Abhishek Mandawewala: Correct, absolutely, so you know large part of our costs are quite fixed. If you look at our manpower cost to a large extent the power cost, you know the other overheads, most of these costs are actually completely fixed in nature and you know do not vary with the variation of volumes. You know the gross margins you know remains in the business if you look at the last 2 to 3 years has remained between 50% and 60%, so needless to say a small drop in volumes can have a drastic impact in profitability but that said there is also a fundamental shift in part of the business you know, so last few quarters I have been mentioning about profitability erosion of nylon business and you know in the last two quarters, I think this has really accelerated and the kind of margins that we were having in nylons, you know we are not having those same kind of margins anymore, so there was a supply demand mismatch you know let say couple of quarters back you know for may be 2 to 3 years which is not the current scenario, so prices are under pressure, margins are under pressure in these kind of commodity businesses and the only choice that we have is to develop newer customers and develop newer products in order to move away from this kind of business.

Ayush Mittal: My question was as there was a demonetization impact in this quarter and as we will be able to improve our volume, do you expect improvement in the same in the margins or you expect them to remain at these levels.

Abhishek Mandawewala: No, certainly I feel that you know the last quarter barring unforeseen circumstances in the future, the last quarter were certainly you know probably one of the worse that we have seen and you know it was, you know in some sense I feel that it would be close to the bottom, certainly we expect things to get better from next quarter onwards but I don't expect things to get back to the buoyant levels of let say 2 to 3 quarters back when everything was pretty hunky dorry. I think there will be a dip in profitability as compared to let say the peak that we had couple of quarters back going forward. See the other factor that we have to remember is also the raw material prices in nylon. The other question is how much of this raw material prices the final customer is going to be able to absorb, so part of this pass through has happened but part of this pass through has not happened. Secondly, what is happening is you know we have some old stock of raw material which we might be able to take advantage of in the quarter in this coming quarter but again the margins might dip the following quarter onwards, so there are a lot of factors which are at play and various constructive and destructive interference kind of things but overall I think the worst is probably behind us.

Ayush Mittal: Okay, thank you.

Moderator: The next question is from the line of Arjun Sanger from Reliance Mutual Fund, please go ahead.

Arjun Sanger: Hello, good evening. Just I wanted to clarify on the Welspun Carpet CAPEX that you were talking about, so as of now, 75% of your topline comes from sales to Welspun India.

Abhishek Mandawewala: No, the related party transactions are clearly mentioned in the annual report. It varies quarter-to-quarter anywhere between 10 and 20%.

Arjun Sanger: Oh, so sales to Welspun at 10% to 20% of your topline.

Abhishek Mandawewala: Yes.

Arjun Sanger: And that will fully vanish once the capacity gets commissioned.

Abhishek Mandawewala: We are expecting that about 75% of that business will move in-house to Welspun Group over the next 12 to 18 months.

Arjun Sanger: Okay fine, got it, thanks.

Moderator: Thank you. The next question is from the line of Rohit Poti, he is an individual investor, please go ahead.

Rohit Poti: Good evening sir. First up I would like to appreciate the honesty with which you answered all the questions in the conference call. It is quite enjoyable for me to read the transcript answers of the annual report. Sir, I just have a question on the company's competitive advantage right now. I understand it is evolving and if you could tell me what the entry barriers that the company has right now and how we would like to see it evolve let say in 5 to 10 years from now.

Abhishek Mandawewala: I think we have got 3 or 4 major lines of business that I have been talking about since before. You know, each of these businesses is unique in their own nature. In terms of the nylon business, I think as such the business, the way it stands, I don't think there is something that really differentiates us from many of our competitors, it is just that we have been at the right place at the right time which has allowed us to let say capture high margins in the past which slowly and steadily are becoming lower and lower as we go by as capacities are being added. In terms of Palghar business, you know this is a historical business which has been going on for last 30 years and you know we have a large customer base here, you know, we have got almost you know between 1500 to 2000 customers, you know the customers can be anywhere between one box to let say one container or you know several containers and we are able to cater to this entire requirement. So you know for anybody to create this kind of distribution is not easy plus the let say the credibility that we have over the last 30 years some of our products definitely because of the past and also the current better quality that we are able to supply as compared to our competitors, our customers generally prefer to buy from us sometimes even at a premium as compared to our competitors. In terms of the BCF business, I think it is a business which is extremely difficult to enter. You know, we have been very fortunate to have the support of our earlier parent company Welspun Group and you know it is with their effort and it is with their help and because of the in-house supply, we have been able to establish this business. You know, I am not certain, how we would have been able to come into profitability or how we would have been able to stabilize this business without the help of Welspun and you know the barriers to entry in this business are extremely high. The customers don't like entertaining any new players, you know, they are typically very-very quality conscious. Carpets are typically 4 meters wide and you know even one single yarn if it is defective, it results in a rejection of an entire carpet, you know, so the risk is also very high in this business which many let say competitors they don't want to take because the chances of claims and quality claims and you know all those kind of things are extremely high so you know it takes anywhere between 2 to 3 years in order to breakthrough one customer in BCF and you know we have been in the business for 4 to 5 years and still there are many customers who you know they don't entertain us even when we visit them, so I think this is a very difficult business for any new person to come, enter and start competing and similarly with polyester business, I think you know it is a little bit of a mixed bag so we have some commodity business as well as some special products that we supply to some customers, some niche requirements you know where they require quick deliveries and they require quick responses, they require customized service, so this is something that many of our customers are not able to offer and this is something that we can offer and you know that is why we are able to have the goodwill of many of our customers even in this space. So this is in summary you know the four businesses that we have and going forward needless to say all these four businesses are transforming and we are only focusing on business let say which is not very easy to attain, so it will be equally hard for our let say competitor also to attain that business.

Rohit Poti: Understood sir. That was a very detailed response sir, thank you for that and just a follow up question, sir when you talk of the nylon business, you mentioned how, there is not much depreciation but is there a return on capital hurdle that the company looks for before it decides, I mean is there any plans kept in the long-term to not be involved in the nylon business or is it that you are planning to enter into a more advanced category where a specialty that you will develop will help you earn a return on capital which is comfortable for you.

Abhishek Mandawewala: See if you look at some of my past transcripts, you would have read that you know for every CAPEX decision there are couple of things that we keep in mind, not just an immediate return on capital but also the long-term sustainability of that return on capital, so needless to say the nylon business you know there are some specialties that we are looking to develop where certainly there will be, they are away from this amortization and you know over there the returns will be a little bit more long lasting. These are products which are still under development but in general, the regular nylon business, which you know which has been ongoing for the business for so long, we are not expanding any capacities in this area and we don't intent to in the future unless it is something differentiated.

Rohit Poti: Okay, understood and these capacities are existing for the regular business, can they be I mean modified for use into other lines, I mean into other let say more advance nylon if you develop that or does it have to be a separate mission altogether.

Abhishek Mandawewala: No typically you know we can use the same lines in order to have new products which we want to develop. We don't always have to go for a new line but if we want to add some completely different kind of product then maybe we have to go for a new line but lot of the products that we are trying to develop there, you know we are using the existing lines in order to do so.

Rohit Poti: Understood. I mean I quite liked the idea of capital allocation that I mean you talk about in the transcript, that was the annual report so separate question altogether, just was wondering in the long-term do you see the company moving away from just being focused on textiles or right now there is no, you are not even thinking of that.

Abhishek Mandawewala: No see our core competence is manufacturing of synthetic yarns, so right now or any time at least in the near future, so far we don't have any plans for anything outside of this area, so all our plans, all our developments, all our business development all is happening in the synthetic yarn area.

Rohit Poti: Okay, thanks, that is it from me, thank you sir.

Moderator: The next question is from the line of Apurva Saha for Philip Capital, please go ahead.

Apurva Saha: Hi, Abhishek, thanks for the opportunity. Is it possible to sir you like revenue mix for nylon and polyester either in volume terms or value terms.

Abhishek Mandawewala: I am sorry, we don't as I have answered before, and we don't share the breakup of these numbers.

Apurva Saha: Okay sir, I just wanted to understand like as you are saying like this quarter was particularly impact by the nylon and particularly the commodity, sir is the revenue mix is changing quarter-on-quarter or if you can throw some light on that, that will help us to understand better.

Abhishek Mandawewala: No, as I said in the short-term, I don't expect any major shift in the revenue mix or the product mix. Long term as I have been talking we have been you know we have been trying to conduct various trials and product development initiatives in the company, so over the long-term probably you know the things will change but let me just clarify that just being nylon or just being polyester or just being BCF does not make a product commodity or specialized, it varies from the customer to customer and product to product. So even within the nylon space it is possible to have specialization.

Apurva Saha: Okay, sir like any ballpark figure like when is the polyester is like ex-person value addition and ex-person commodity vis-à-vis nylon.

Abhishek Mandawewala: No it is very difficult to. We have not shared any such numbers.

Apurva Saha: Okay and second question is on Welspun India, so like that is quite commendable you said like 70% to 75% of business that may go away, so that predominantly is the busiest part or some other business will also go away.

Abhishek Mandawewala: So we don't share what all business we are doing with Welspun India but in terms of the total related party transactions that we have about 10% to 20% of our topline is going to Welspun

India and about 70% to 75% of this 10% to 20% will slowly fade away over the 12 to 18 months, needless to say efforts are on in order to replace this business, so you know several product development initiatives are on in order to make sure that we are ready with alternative business whenever this business moves out.

Apurva Saha: Okay and last question is on BCF, sir in one of your last conference call, you mentioned like in BCF, there is some competition increasing and probably the margins are coming down over like may be 6 to 8 months back, sir can you some light on the current competition in margin and if possible if you can share, what is current contribution from BCF to our total revenue.

Abhishek Mandawewala: I cannot answer your question on the revenue mix, again and again I have said we cannot share any details about revenue. I am not sure when I mentioned about BCF margins coming up down but definitely competition is increasing. What we are trying to do is develop new quality of products in order to maintain the margins there.

Apurva Saha: Okay that is good, thank you.

Moderator: Thank you. The next question is from the line of Rohit Balakrishnan from Rare Enterprises, please go ahead.

Rohit Balakrishnan: Hi Abhishek. Just to start with couple of data points, can you share what is the export this quarter.

Abhishek Mandawewala: Rohit the exports are at about 20% of the total sales. So it is about 35 odd crores.

Rohit Balakrishnan: Got it and can you share so I think we did 10324 tons in this quarter right in terms of overall volumes.

Abhishek Mandawewala: Right.

Rohit Balakrishnan: Would you be able to share what was it last quarter.

Abhishek Mandawewala: It was a 20% decline from the last quarter.

Rohit Balakrishnan: Okay, so Q2 was 20% higher than the current quarter, right.

Abhishek Mandawewala: Correct.

Rohit Balakrishnan: And EBITDA per kg is about 18 Rs right.

Abhishek Mandawewala: Yeah.

Rohit Balakrishnan: Okay got it, so Abhishek just picking up from the question that another participant asked about your four businesses, can you actually explain the Palghar business also I mean, I don't really understand that business well, so if you can just spend some time explaining that.

Abhishek Mandawewala: So, Rohit, Palghar business is basically a yarn dyeing business, so we take the feedstock or the raw material in the form of a raw white yarn and you know we dye that yarn and sometimes we texturized the yarn in-house and then we dye the yarn and then supply to the markets. Sometimes it is plain, sometimes it is twisted yarn and you know it is a very peculiar business, very difficult to manage business, because customers are you know they expect typically very immediate deliveries, they want deliveries as of yesterday, because the volumes are very small, so the reason why customers go for yarn dye is because the quantity per shade is very low and you know the larger quantities comes from the dope dyed but since the quantity in yarn dying are low so they expect very fast deliveries in this business and also the quantities per let say customer are also very-very low as compared to the regular business, so you know distribution and reach and also to a certain extent, you know the brand, the reputation and you know the quality of supply and the consistency of supplies are very important measurable or contributor towards the success of the business.

Rohit Balakrishnan: Okay, got it and just a clarification. You said that amongst the four categories of business that you have, you think that nylon is largely commoditized and you are trying to make stuff more value addition there but if you were to ran value addition the highest from the highest to lowest what would those be.

Abhishek Mandawewala: No I won't want to venture out, I won't want to venture out and say that this one has more value addition than the other. All I can say that is every single business that we have there is potential for us to create products which have you know which have differentiated products so whether it is Palghar, polyester, BCF or nylon, even the nylon which is today highly commoditized within our setup but even that business there is a plenty of potential in order for us to create differentiated or if not differentiated, let me say specialized products where very few people or very few manufacturers in the world are manufacturing and we will be one of the few manufacturers.

Rohit Balakrishnan: Got it, any uptake in the R&D expense that you have done in the last 9 months.

Abhishek Mandawewala: So the last 3 quarters it is about 9.5 odd crores, the last quarter was about 2.8 approximately crores.

Rohit Balakrishnan: And this is all through the PNL or it is a mix of both.

Abhishek Mandawewala: So it was mix of PNL as well as CAPEX items.

Rohit Balakrishnan: Okay, cool, these are all the questions at this point of time, I will join back if I have anymore.

Abhishek Mandawewala: Thank you.

Moderator: The next question is from the line of Gaurav Sood from Kanav Capital, please go ahead.

Gaurav Sood: Hi Abhishek.

Abhishek Mandawewala: Hi Gaurav.

Gaurav Sood: One was, it is more of the generic question was given the current scenario and how things are playing out globally, what is the competitive scenario of India vis-à-vis the other countries and the various players and given the fact that GST is coming through, whether organized players are going to benefit out of that move, what is your view around that.

Abhishek Mandawewala: Sir, I will answer your question about the competitive scenario in the global context, so certainly I think you know synthetic yarn, there is a you know particularly some of our products, particularly Palghar for example, there is a very high amount of labor element in that product, so being in India is definitely an advantage you know for us, as you know the wages in China are increasing very rapidly, so what happens is typically what we find is that in China, the Chinese companies they are more focused on products which are more let say volume oriented, so typically when we go outside or even within our own country, we try to stay away from products you know there is a massive influx of Chinese competition or Chinese players, we typically tend to stay away from that kind of a business, because even though China's wage rates are lower, what happens is that they have lot of subsidies or incentives or I don't know what to call it but overall in the end and also the scale which allows them to be more competitive in commodity products as compared to Indian companies, so there we don't try to compete with them. In terms of the local business, you know it is yet to be seen how GST will play an impact on our business, you know I honestly speaking I don't have an answer that how our business will be affected by GST, certainly I can say that there are many unorganized players there, now I don't know what will happen to them and how they will, how it will play out once GST comes, you know whether they are under the excise net or not or how they are doing. I am not sure how it will take place, only time will tell once GST comes into picture.

Gaurav Sood: Okay and over the last few calls, you have talked about the new product lines that you have been working on, but given the fact that your existing sites are almost used to capacity, so any plans for Greenfield project in the coming year or two.

Abhishek Mandawewala: See small projects, you know small basically lines can be added here or there but as such you know, we don't have any major plans but certainly after project 5, we are certainly talking about a project 6, you know I mentioned about this in the last quarter also, we will probably be able to talk about this may be in the next quarter or two but you know even over there, some of the investment will go towards let say nonproductive CAPEX, some of it might be towards expansion of volumes, but any expansion of volumes that we are now talking about you know we are trying to restrict it towards new products rather than expanding more of the same, so you know more and more of the new volumes hopefully will come with you know to expand our capability rather than the capacity.

Gaurav Sood: Yeah, Abhishek so what I was trying to get into around is that when will the any material volume growth get in, it is only once you have established new product lines.

Abhishek Mandawewala: Absolutely, so I am not expecting anything, you know I have mentioned this in the last con-call also that you know next couple of quarters, three quarters may be even four, I am not expecting any major change in the volume that we have currently, so the volume will remain sort of similar. Let say last quarter was abnormally abnormal situation but let say the quarters before that may be a right number to compare to I mean we should be remaining at those levels for the next you know may be 3 to 4 quarters at least, and my last question is around basically separation of the promoter share-holding between the Mandawewala family holding 65% and you also talked about the fact that Welspun India is going to bring some of that BCF business in-house, so does that mean that the groups are now moving to become two formerly two separate groups and it will be a distinct no longer the related parties. See you know even from the first day you know in may be last you know last year in 2015 itself you know the companies have always operated even when it was part of Welspun group, it has always operated at arms' length and it continues to operate at arms' length basis, so you know right since the name change, I think you know let say the demerger from Welspun Group had already happened, so you know these are just some further developments which are in line with what was already expected so this is nothing new so this was let say a following step as per after the name change and after the demerge from Welspun Group, it is just a following step, so nothing new about it, so there is no change in the way the operations are happening, still you know earlier it was operating at arms' length and it will continue to operate at arms' length.

Gaurav Sood: Yeah, so Abhishek, just to put it in a different way that would Mandawewala family this would be the principal line of business for them going forward or they would be getting into some other areas also and would this be the main company through which they will operate.

Abhishek Mandawewala: So you know I think lets restrict the questions to AYM you know this is the AYM call but as of now I can say that we have no plans to enter any new lines of businesses.

Gaurav Sood: Okay, thank you.

Moderator: Thank you. The next question is from the line of Ayush Mittal from Mittal and company, please go ahead.

Ayush Mittal: I had a pending question about the depreciation. There was an increase in depreciation in this quarter.

Abhishek Mandawewala: Yes Ayush.

Ayush Mittal: So why is this increase like we haven't done any CAPEX or something.

Abhishek Mandawewala: No, CAPEX has been continuing for the last 3 or 4 quarters, you know may be the CAPEX is not adding to the volume but the CAPEX is continuing as several new recruitments have been added whether it is testing equipments, whether it is downstream equipments, or whether it is in BCF, in polyester, some small CAPEX also in Palghar, so CAPEX is continuing but may be the volumes have not increased but the CAPEX is continuing.

Ayush Mittal: Sir if I see the September balance sheet, there was a capital work in progress of 25 odd crores, is this what has moved to the gross block now.

Himanshu Dhaddha: Yeah, so on your ongoing basis actually this would have moved to the gross block but there are again CAPEX which has moved into the CWIP, so it would be on an ongoing basis that this will happen. So on average I think 15 to 20 crores per quarter the CAPEX has been happening from cash flow point of view either when we consider the actual CAPEX, or the CWIP moving into CAPEX.

Ayush Mittal: But that is quite a substantial number like 15 to 20 crores per quarter means 50 to 60 odd crores per annum.

Himanshu Dhaddha: Correct.

Ayush Mittal: Is such kind of CAPEX is happening if I can see the volume numbers since very long time they have been absolutely flat.

Abhishek Mandawewala: Correct.

Ayush Mittal: So neither the margins improve nor so how does this CAPEX help you, yeah what is this CAPEX like the future CAPEX you said is about the warehouse, I don't think so this CAPEX is about the warehouse which is.

Abhishek Mandawewala: No so warehouse is just part of this, so you know even in the last quarter, we have had some expenses on account of the warehouse so let me say that in general our factory has been completely now choco block, there is no space whatsoever so part of the CAPEX is also going in order to create new space in order to house new lines whenever they do end up coming. Part of the CAPEX is also happening in order to expand the capability, part of the CAPEX which has happened you know we are not been able to completely utilize the you know the capacity which has been added so for example, this last year in the beginning of the year, we commissioned the Palghar new plant you know let say 50% extra capacity but so far we have not been able to as such use that extra 50% capacity. Part of the capacity was done you know last year let say the decision was taken a year-year and a half back, it got commissioned may be few months back in nylon and needless to say that CAPEX was not contributing anything or barely contributing you know additional to the profitability, so several things are there because of which you know let say there have not been any significant increase in volumes or increase in margins but this is all necessary CAPEX that must happened for us to move on.

Ayush Mittal: So if I look at the June quarter that was the highest volume you had done at about 14,900 ton, sir any idea about the realistic volume production that we can do at the best level like has it improved to 16, 17 or 18000 ton, is that our capacity, what will be the right number.

Abhishek Mandawewala: See again it is very hard for me to give a capacity number to you Ayush but I can say that in Palghar we are quite underutilized so we are at about 67 odd percent utilization in Palghar, in spinning, you know last quarter was pretty poor but let say we operate anywhere between 80 and 90% capacity utilization. Also in BCF you know we operate at high capacity utilizations, so the only place where I feel that we can have significant volumes is only in Palghar, apart from that I don't think we can have any major increase in volumes.

Ayush Mittal: Okay, thank you.

Moderator: Thank you, the next question is from the line of Dhaval Shah from Creek Capital, please go ahead.

Dhaval Shah: Hello. Yeah, just had one question, so with the reduction in business over next 12 to 18 months which was to Welspun India, then shall we expect a lower single digit growth going forward or till the time we compensate for the loss in business, how should we see the growth for the business for the next two years then.

Abhishek Mandawewala: See couple of things, number one, you know I am afraid, I cannot share any guidance in terms of the growth or numbers and all that, but what I can certainly say is that in the area you know where you know some of the business is going to move out back in to Welspun Group, you know we already our sort of short of capacity and you know hopefully by the time this the switch happens, hopefully we will have business lined up you know in order to you know to take over the business that we lose to Welspun Group, so slowly and steadily I think that move may be there will be a quarter or two where there will be an impact of business moving out but in general, I don't think there should be a major impact of this the shift happening.

Dhaval Shah: So seeing the kind of money we spent every year as said to the earlier participant of 40 to 60 crores, so we are quite certain that we will be able to fund that to our cash flows. Does it mean that because you are quite certain of getting new business also by comparing for what you lose.

Abhishek Mandawewala: Absolutely, so most of the CAPEX, you know so we set some internal benchmarks within our company, we are trying to maintain trailing net debt to EBITDA at about 2 times you know and you know we are trying to fund the CAPEX as much as possible with the internal accruals rather than the long-term debt but so long-term debt will remain in that same range of let say around 225 crores hopefully and our endeavor is that we want to remain at this 2x net debt to EBITDA.

Dhaval Shah: Okay fair enough, thank you.

Moderator: Thank you. Due to time constraints, we will take the last question of the session, which is from the line of Rohit Balakrishnan from Rare Enterprises, please go ahead.

Rohit Balakrishnan: Hello, is it possible to share the cash flow that is being generated in the first 9 months.

Himanshu Dhaddha: So basically cash flows post taxes, interest and working capital changes we generated around 27 to 28 crores and then there was simultaneously the CAPEX going on, so you can say with the change in cash flows would be around 10 odd crores on a negative basis.

Rohit Balakrishnan: 10 odd crores negative.

Himanshu Dhaddha: Yeah, including the CAPEX this year.

Abhishek Mandawewala : So the change, he is talking about the change in cash equivalent.

Rohit Balakrishnan: Okay sir understood, so.

Abhishek Mandawewala So we have about 80 crores of let say year to date EBITDA, from that we have done our project CAPEX of about 39 odd 40 crores plus let say our maintenance CAPEX of about 6 and 6.5 crores so 45 crores of CAPEX has happened and then the interest payments and taxes and all that, so you know we are left with about –ve odd 10 crores.

Rohit Balakrishnan: And any deterioration or improvement in the working capital, that could have either increased our cash or decreased our cash.

Abhishek Mandawewala: So the current assets and liabilities, I think there is a decrease of about 18 odd crores over the last 9 months, but you have to take this with a pinch of salt, it depends a lot on how much LCs we discount, you know when we choose, sometimes we choose not to discount the LCs in order to save the interest when there is enough cash flow available.

Rohit Balakrishnan: Okay understood, just another question in terms of as we are moving our business towards innovative products which have higher entry barriers, would it be right to say that the market for that is more outside India versus within India.

Abhishek Mandawewala: In general, I would say that in both areas these possibilities exist, so it is not just exports versus domestic but certainly yes, there are lots of customers outside of India you know particularly let say in countries like Europe where you know the markets are more evolved and the expectations are much higher, so I would partly say yes.

Rohit Balakrishnan: Okay, so just extending that so are our efforts to crack this innovative segment if I can just club it into one for simplicity state is more focused on exports, is that also right to say.

Abhishek Mandawewala: Partly yes and we are not losing the focus on domestic but certainly we have increased our focus on exports.

Rohit Balakrishnan: Got it so if I were to look at your export numbers over the last three quarters, first 9 months it is around 116 crores, last year we did I think around 200 crores, so is that while I understand that our innovative products will take time and things like that, but is there something which has led to this fall, otherwise which would have not been there, because otherwise if I look at it around 50 crores was our run rate if I take FY16 numbers, that has sort of reduced to around 35 to 40 crores.

Abhishek Mandawewala: Okay, so first of all let me clarify that not all products that we exports are for you know let say customers with high entry barriers or some specialty products or you know innovative products, we have exports which are also let say commodities. Secondly, in the last couple of quarters, I think there has been a major impact of this Turkey issue that we had in you know particular our business in Palghar, this you know there has been a major contribution of that you know problem that we faced, and if you look at over an overall trend of let say last 2 to 3 years, there is also some trading business which we used to do you know which has come almost to a complete standstill so several factors that play there on, this is it thank you.

Moderator: Thank you. I now hand the conference over to management for closing comments.

Himanshu Dhaddha: Thank you very much everybody, just to conclude that we will continue to drive the journey towards sustainable profitable growth through innovations and expansions largely out of internal accruals. Thank you all for attending the conference call.

Abhishek Mandawewala: Thank you everybody.

Moderator: Thank you. With this we conclude the conference. Thank you for joining us and you may now disconnect your lines.
