



AYM Syntex Limited
Conference Call
Q2 FY21 Results & Other Business Updates

October 27, 2020

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

Moderator: Ladies and Gentlemen, Good Day and Welcome to the AYM Syntex Limited Conference Call to discuss the Q2 FY '20-21 results discussion and other business updates. On behalf of AYM Syntex Limited, we have with us the key senior Management including Mr. Abhishek Mandawewala, MD and CEO, and Mr. Himanshu Dhaddha, CFO. As a reminder, all participants' lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. Before we begin, I would like to state that some of the statements made in today's discussion may be forward-looking in nature and may involve risks and uncertainties. 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: Thanks. Good Afternoon, everyone, I welcome you all to the conference call on our company's behalf and also thank everyone for taking this time to attend the call. I wish and hope that every one of you and your family is safe and healthy. Let me begin this conference call with a short update on the Quarter-2 results and performance which is in the public domain and also uploaded on our website. AYM Syntex posted revenue from operations of 212 crores for the quarter ended September 30th which is an increase of 121 crores over the previous quarter and although it is down by 21% as compared to the corresponding quarter last year, but that is on the account of the COVID so both numbers are not comparable as such. In actual, it posted revenue of almost 300 crores. The operations from the company improved during the current quarter as compared to the Quarter-1 with all segments gradually moving towards normalcy by the end of the quarter. Demand revival in the strategic segment like BCF, IDY showed positive signs and resurrected to the pre-COVID levels faster than the others. Gradual increase in the utilization of the plant capacities was also visible on a month-on-month basis in all the



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parts of the business. Palghar demonstrated a good improvement in all the operating metrics, **margins** improved in large parts of the business on account of improved product mix as well as the cost optimization and initiatives which have been undertaken in the last six months.

RM prices continues to be stable in Q2 FY '21. In terms of overall volumes, I think in tonnage we have done almost 11,855 tons which was lower as compared to all quarters of the last few years except this year Q1 possibly. Export as a percentage of NR has been at 43% in Q2 which is slightly higher than FY '21 average. Operating EBITDA for the quarter stands at Rs. 21.6 crores as compared to negative 5.7 crores in Q1 and 35.1 crores in Q2 of last year, which is on account of lower sales in this quarter. The EBITDA per ton actually reached out to FY '20 levels, now it stood at 70,756 per ton as compared to 16,500 tons in the Q2 of last year. Profit before tax moved back to the positive trajectory for the quarter ended September '20 and after having incurred loss in Q1 on account of lockdown, it stood at almost 2 crores as compared to 3.7 crores in Q2 FY '20. Finance cost has reduced in the current quarter with lower operations as compared to FY '20 average and the working capital requirements were also lower as compared to the last three-quarters last year. The net debt figure stands at Rs. 253 crores as on September '20 versus 232 crores in March '20, which is expected to reduce in coming quarters. Total gross debtors in the book stands at 95 crores which have increased over June '20 figures of 68 crores on account of increased sales in the current quarter, debtors are above 180 days is only at Rs. 3.5 crores. The current ratios excluding the term debt liability has improved to 1.26 in September '20 versus 1.21 in March. As I said earlier, no major CAPEX in the current quarter apart from the minor plant improvement activity the maintenance CAPEX; the same strategy actually continues for the next 12 months or so and only minor debottlenecking CAPEX and operational CAPEX would be considered. With this information, I am handing over to my colleague Mr. Abhishek who can give you more business updates on Q2. Over to you, Abhishek.

Abhishek Mandawewala: Thank you, Himanshu, Good Afternoon everybody, season's greetings to all and hope everybody is taking adequate care in these times, so I will begin with the business updates for Q2, so I will start with the textile division. The business has now recovered to pre-COVID levels and all lines are operating with the exception of a few downstream machines. More or less I think out of 33 spinning lines, every single one of them is now in operation. This might also be because of some Diwali demand and there might be a bit of a slowdown from December onwards, but nothing too concerning. Last quarter saw us take a major hit on the raw material prices and POY/TEX segment contributed negatively due to this. However, the raw material prices have now stabilized or let us say they have gone away from their lowest prices and from the coming quarter onwards things should normalize in terms of the RM prices. I am pleased with the slow but steady progress in the last six months. We are in the process of launching several new products in the coming quarter. These products are being launched after a basic survey and we expect to generate volumes immediately after the launch. Our specialty product sold under the brand name, Silque, has seen very good off-take and we expect to double

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volumes in the coming quarter. We launched this product about two years back and it has finally started to give results.

Throughput improvement initiatives too have progressed well. We have doubled the capacity on one of our polyester mother yarn lines and are expected to repeat this in one of our nylon mother yarn lines also. As I said earlier in some of my calls, we have a lot of low hanging fruit in terms of squeezing more out of the machines without incurring any major CAPEX in order to grow the bottom line and top line. The extra throughput that will come as a result of this will be at almost zero marginal cost with the exception of our raw material and packing of course and contribute positively to the margins. While the long-term direction remains to specialize, we have made some tactical changes to our strategy post introspection after COVID. There are two important changes that we must bring to the POY TEX business, simplify the operation that is fairly complex and start outsourcing processes which are capital intensive to the companies that are willing to do it at a lower return or are better geared to do it. This means we will focus more on the downstream processes such as texturizing, air texturizing, splitting, twisting, and which are more customer-facing. Of course, we will use our current spinning capacities for niche or higher margin products while outsourcing the more commodity-oriented products, so at the end of the day what this will do is it will over the medium term to long term, this will help us to greatly reduce our ongoing capital expenditure per unit of growth. Of course needless to say right now, there is no CAPEX plant as we have enough low-hanging fruits already. On the Palghar side, Palghar business saw a domestic cost led a turnaround in the last quarter. Since the last six months, we have been working on several areas to reduce costs and have been able to successfully bring down the breakeven level of the plant by almost 200 tons.

Despite having lower capacity utilization, the profitability of the business has jumped considerably. The good news is that hopefully some of these initiatives will continue and additional plant cost savings will offset the cost increases associated with opening up of the economy particularly travel, whenever that starts. Additionally, I am pleased to announce that our Ecosse and Silkenza, carpet yarn products have now started to do fairly well in the marketplace and volumes have started to increase. Till last quarter, we were experiencing teething issues in both the brands, but we have resolved them in Ecosse, but we still have some work to do in Silkenza although I am confident that over the next few months, we will be able to come out of these issues. Additionally, I am excited about the pipeline in Palghar-2, like Rakholi we have selected those products which are already selling in the market and for which we have distribution as opposed to moon shots, so hopefully, this will mean that as soon as we commercialize these products, we will start selling in volumes very quickly.

On the BCF side, business is operating as before. We have been facing some delivery issues due to the bottleneck created in the heat setting area, so we are working in order to increase the throughput in this area, and hopefully, that will also help us to increase our volumes and margins. We are in the process of launching our very new exciting patent-pending development this quarter called AOS. The product has been pre-launched already and we have received a

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very good response from the customers, so this is a naturally produced antibacterial product and I am personally very excited about this product. Our last commercialized innovation, Comfeel, seems to be going from strength to strength, and two of our strategic customers with whom we had developed a deep partnership to commercialize this product both seem to be doing fairly well in the marketplace and have been providing us with positive reviews and increasing volumes. With that, I would like to hand over to all of you for any questions that you may have.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Riddhesh Gandhi from Discovery Capital. Please go ahead.

Riddhesh Gandhi: Hi guys and congratulations on numbers, couple of quick questions, do you all have a number on the RM impact which you had alluded to, which was there in Q1 and partially in Q2, how much EBITDA impact would that have had in Q2?

Himanshu Dhadha: Good Afternoon Riddhesh, exactly we do not have that number to be precise, but yes it would be say in the range of almost 2 crores.

Riddhesh Gandhi: Got it, so about 2 crores implication is because of the raw material?

Himanshu Dhadha: Yes.

Riddhesh Gandhi: The other question is that as I look through the entire quarter, I think you had alluded to at in your last call, the normalization had started around middle of the quarter odd or so, so if we were to just look at it from the entire quarter perspective, how much would it have been in September, we are just trying to get a handle on what will normalize the EBITDA would be for the company?

Abhishek Mandawewala: We do not want to give any projections for profitability, but our business as you know is a high fixed cost, high gross margin business as compared to our competitors, so even if we are at 85% of the level as before that last 15% contains a significant chunk of the profitability, so the last quarter I do not have the number offhand maybe Himanshu can help, but certainly we were not, if you look at it on a quarterly basis, volumes are below what we would all do in a pre-COVID time or let us say what we are doing as a run rate today.

Riddhesh Gandhi: I think still EBITDA per ton has ended up being higher?

Abhishek Mandawewala: Hopefully, we will be able to go back to where we were pre-COVID and if all goes well, we will surpass some of those numbers.

Riddhesh Gandhi: In the earlier part of the quarter, you still had a COVID impact for the first month-and-a-half or so?

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Abhishek Mandawewala: Yes, certainly, so I think August onwards things have started to normalize, but the ramp-up is not always smooth so when you start lines, you take 15-20 days to normalize them and then there is a waste and downgrade and by the time the material gets dispatched, it takes some time. I do not think even till the end of August everything was running 100%, it took some time, so from September onwards things started to smoothen up.

Riddhesh Gandhi: Actually 30 days or so normalization has come?

Abhishek Mandawewala: Correct.

Riddhesh Gandhi: Last question with regard to how much of operation free cash flow in Q2 did we do, the half-year numbers you have given, but just to understand because we had it locked in Q1, so is almost all of the free cash flow driven out of Q2, 230 crores?

Himanshu Dhaddha: I think around 16.5 crores of cash flow from operations is what we generated in Q2.

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

Dhwani Desai: Hi, hope you guys are safe, few questions, first is you mentioned about the Palghar pipeline looking good and that is where you have been facing some challenges, so if you can throw more light on it as to whether it is because of the nylon business, which is picking up, new products contributing or what is it that is driving that better pipeline on the Palghar side?

Abhishek Mandawewala: The pipeline that I meant on Palghar was on the new product side, so right now the turnaround in the results has been led from the cost side rather than the sales side, so our sales level is still even in the month of September, let us say pre-COVID, but the last six months having gone through this difficult period and having increased our communication with our customers, we have come up with about four or five new product ideas which are already existing in the market places where we have done an evaluation and determined that the prices at which these products are selling are fairly and healthy enough for us to enter as a second entrant, so these are not innovative or unique products, these are products that are already existing in the marketplace. It is just that we will be developing them and supplying them in the market, so hopefully, the commercialization will happen a lot quicker. There is of course some element of novelty in the sense that, we are producing it in a different way as compared to what other people would be producing, but there are four or five of such products that are in the pipeline and as they get commercialized, I will be happy to share more details.

Dhwani Desai: But does it mean that our intent on kind of having a product where entry barriers are high in the Palghar, especially and we had seen pushback by whatever time, six months, 12 months or 18 months?

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Abhishek Mandawewala: No, I do not think so, so I think both activities are going along parallelly, so if you see Ecosse and Silkenza these are two products that are unique to us, there is nobody in the market, in fact we have innovated, we have created these products, they do not exist, these are our innovations. We continue to push these products in the market, every month our volumes are growing month on month. Hopefully, they will continue to grow, so I think it is a parallel activity, it is not an either-or scenario, so when you have vacant capacity lying in the plant, the first job is that in some way or the other, we must fill those capacity, so even if we make a product that is already existing in the market, the impact on the bottom line is so phenomenal, that sometimes that same level of impact cannot come by replacing an already commoditized product with a special product, so right now it is a bit of both, so we continue to innovate and at the same time, we are looking at how to fill up our capacities which have been idle for now almost a year or two.

Dhwanil Desai: Second question Abhishek is on last time when we were on the call, the export was doing very well, but the domestic that it was still to pick up, but now from the numbers, it appears that 43% export that means domestic also has picked up well, so how do you see that market panning out and I remember you calling out that post Diwali there may be some lull setting in again, so how do you assess the situation on the domestic?

Abhishek Mandawewala: I am being a little bit more conservative than our sales people are telling me, so typically in Diwali month markets like Surat they shut down for almost 15-20 days. Our sales people are informing us that this year because the pandemic has shutdown the business towards the beginning of the financial year for such a long period of time, we might not see this kind of shutdown because even workers will not be returning to the village like before, so normally if you noticed even in the past, December generally is a slower quarter as compared to the other three quarters, but nothing like COVID where something completely goes for a toss or demonetization or GST, it is a minor plus/minus in the demand let us say, but I certainly feel that post Diwali there will be some dip in demand maybe 5%, 7%-10% or whatever it is.

Dhwanil Desai: Okay, but as of now the domestic demand is strong?

Abhishek Mandawewala: Yeah, right now it has taken me by a surprise, so right now the goods seem to be moving, so September was a good month for us and so even though we did not reach full volumes even in September, hopefully in October we will be reaching the full volumes, but the demand from the market is very strong.

Dhwanil Desai: Right, because one thing that we are hearing in certain segments of textiles is that the moving away from China by some of the European and US customers especially on the retail fabric, and apparel side is actually driving the demand, so do you see any such kind of a likely more medium-term changes happening in customer behavior in our business or it is too early to call out?

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Abhishek Mandawewala: No, I think in my point of view some of these can be narratives, so I think our business is a result of whatever we have been doing over the last one or two years and of course the overall market is picking up, whereas I am not sure whether in synthetic, India is anywhere close to China, so for example, polyester Chinese capacity is almost 30 times as much as India, of course that also means that even if 1% or 2% of the demand moves, it can flood India's capacity. Certainly on the flooring side, I have seen what you are saying, but on the knitting and weaving side, I am not sure whether we are experiencing the same thing, but on the flooring side I can see and when I talk to customers, they tell me that we are looking to de-risk our supply chain from China, so some of that moreover is happening certainly.

Dhwanil Desai: My last question is on BCF as you said the outlook remains good, but any kind of a new addition in terms of customers, product & flooring side that you are talking about, is it related to the BCF side, that is what my understanding?

Abhishek Mandawewala: No, we have flooring in all the three divisions, not just BCF, we have in textiles also and we have in Palghar also, so we service flooring demand from all three. In terms of new customers, we have added one customer in flooring and the Ecosse and Silkenza, we have added one very good customer, the customer is in India, but he is an exporter so our yarn is being converted into carpets and being exported into the US, so very important customer for us who can turn into a big volume customer for Palghar.

Dhwanil Desai: One last request Abhishek, I think over the last two or three years, you have launched many new products and in every call, we hear some bits and pieces that XYZ product that we launched is doing well, but it is very difficult to get a compensated in terms of the new products that we launched in last three years that the percentage of revenue how it is moving, if you can put together something like that, it could be a good marker in terms of having that understanding, otherwise like we are moving from product to product, but we do not have a complete understanding, just a request if you can do that.

Abhishek Mandawewala: Sure, I appreciate your feedback and comment.

Moderator: Thank you. The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: Thank you very much Sir for the opportunity, now Sir as you mentioned that towards the October we are kind of returning to normalcy and kind of business recovering to pre-COVID levels, so do you also expect your revenue to come back to like what we have been doing in terms of pre-COVID levels?

Abhishek Mandawewala: The raw material prices and hence the finished goods prices are a bit lower as compared to pre-COVID, so to that extent maybe our turnover also gets affected, Himanshu you can correct me if I am wrong, but by and large I think we should be back to that level.

- Himanshu Dhadha:** I think in volume terms we should be back to pre-covid levels.
- Deepak Poddar:** From third quarter onwards, right?
- Himanshu Dhadha:** Yes.
- Deepak Poddar:** Okay, understood, and now if your revenue scale is going to increase, so even you would get the operating leverage advantage because your cost would have gone down, so just wanted to understand little on the margin front like how much of that cost will come back when your volume will increase or how much of the cost decrease is kind of permanent, so any comments on those will be quite helpful?
- Abhishek Mandawewala:** On the cost front I think by the month of September, we are incurring almost everything that we are supposed to incur, but there is a lot of let us say rationalization that we have done in the months of March and April and those are still in place, so we have improved our labor productivity and we have also very critically looked at our manpower and reshuffled organizational responsibilities and all of those are still in place and I do not think there will be any change on that front, of course there are some expenses which I do not think we will incur in Q3, but going forward we will incur something like a travel expense, so that is right now almost zero but when that comes back, the cost will be additionally over and top of that, other than that I think more or less all the costs we are already incurring in both the plants.
- Deepak Poddar:** Understood, so will that not increase your EBITDA margin to a higher trajectory maybe on a double digit something there because your corresponding increase in revenue will not have corresponding increase in cost, right?
- Abhishek Mandawewala:** Yeah, so certainly some of the element of cost is permanent and that will definitely improve our margins, I do not know about double digit and single digit, but I can certainly say that is one of the primary reasons that Palghar profitability, so in September we were able to achieve despite a lower volume almost all-time record when it came to profitability in Palghar so and that was despite having all the costs being reinstated more or less, so to that extent hopefully there will be some benefit going forward.
- Deepak Poddar:** Fair enough, and we have any kind of debt outlook like how do we see our debt over next two years?
- Abhishek Mandawewala:** I do not think we have any major capital expenditure planned, I think we have enough initiatives in the pipeline, which will help us to grow our bottom line significantly before we have to commit to any major capital expenditure, so I think a big part of our operating cash flow minus the interest and minus some maintenance CAPEX of a few crores, more or less everything else will flow back into repayment of the debt and with this new strategy that we have been talking about going forward even once all these low hanging fruits in a year or two

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once they have been exhausted, even after that I do not think we need to commit to major capital expenditure because there are lot of other opportunities or let us say low margin products that we are producing in-house that we can always outsource and maintain the volumes and margins and create a better pipeline or better quality products in the plant and focus more on the downstream, so overall I think over the next couple of years barring events like demonetization and COVID and GST, hopefully, we should be able to bring our debt down significantly.

Moderator: Thank you. The next question is from the line of Ayush Mittal from Mittal Analytics Private Limited. Please go ahead.

Ayush Mittal: Good Afternoon everyone in team AYM, it is good to hear the positive commentary and that things are looking up for the company, so I have couple of questions, one you have been talking about that you are seeing more off take into traction into the products on which the company had been working for quite some time, so is it more from the customers that we were targeting on the several niche products and developments, and is it more of a long-term off take that happens as we engage with the clients for some years?

Abhishek Mandawewala: Are you referring to a particular product or you are referring to Silque or what you are talking about?

Ayush Mittal: Overall.

Abhishek Mandawewala: Generally, we have sometimes turnover of customers, but generally in certain segments depending on our service level, customers can be quite sticky, so bulk of our business is actually formed by customers who have been with us for many years, and of course we have some turnover, but certainly in the new products because we are the first entrant and in many case the options are not available, so there we have a much closer and tighter relationship with our customers and generally the stickiness is little higher. Of course, both the sides need to be very patient when it comes to new products. Although whenever you launch a new product, it takes time to understand and to imagine all the issues, as yarn is a very complicated product, though it seems very simple but it is very complicated, small changes can also dramatically impact the product properties, so sometimes it takes little bit longer to work through the issues, but by and large I think the newer products certainly the stickiness is higher.

Ayush Mittal: No, what I meant was that around these new products that we have been seeding for last two or three years wherein we had been developing new clients and doing sampling and all those things, new applications so is this the area that is driving the volumes now and giving you much more confidence?

Abhishek Mandawewala: It's a yes and a no as well, we have both, so we still have the existing part of the business, which maybe they were little too depressed and they have come back. There is part of the business,

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which is coming from this additional new products, so I think it is a mix of both and the whole thing coming together slowly and steadily, so it is not something that we have suddenly done in the last six months or one year. Last three or four years all this effort has been happening and slowly and steadily we are seeing the impact, if you remember Silque which I mentioned for almost one to one-and-a-half years, it has been dormant and we have been growing customers, but something or the other always came in the way. Now, finally we have been able to crack some large accounts, and now hopefully, the volume will increase from next month onwards, so sometimes it takes time for new products to come in and that automatically lends confidence, but to answer your question it is a mix of both, the existing products also and the new products also.

Ayush Mittal: Could this also be like earlier participant asked that more due to focus on India or improving the supply chains apart from China, could this piece be tractions due to these efforts wherein you are seeing more engagement from customers and more longer-term off take or volumes going forward?

Abhishek Mandawewala: I am not sure if it is all because of that, so Silque for example is entirely a domestic looking product, so the entire demand for Silque is coming from India, so we are not exporting any Silque, so I do not think it has anything to do with China and there is no such product which exists in China. Comfeel you know for example that innovation is doing fairly well for us and that also I mean there is nothing like that in China, it is something completely unrelated to China. Nobody makes that Comfeel product, it was actually first time made by us, so some of the newer products, I do not think there is any relevance or significance of China, but in the existing products maybe on the flooring side, certainly there is an element where the regular products on the flooring side, whether it is BCF or textiles, there could be about some demand one or two customers who are placing orders who maybe they were earlier placing orders in China and are now placing orders with us.

Ayush Mittal: Great, that is fantastic to hear, very few companies which will talk about innovation and having such niche products, so given that we are getting traction on this, we will be replacing many of the products that we were doing which were competitive and commodity, is that what we plan to do and you also talked about some outsourcing things that you plan to do, is that right?

Abhishek Mandawewala: Yes, so we are already doing some outsourcing but since last one year we have been doing some outsourcing but we never thought of it like that, so the more we did outsourcing, the more we realized that there is a lot in our product mix that we can actually take out and spinning as a process it is very capital intensive, spinning lines are very expensive and we are able to get those products made at cheaper cost than even outside then as compared to our own cost, so why not take it outside, make space for some of these products that I am talking about and that will help in two ways, hopefully it will help us to improve our margin profile, and second most importantly, the next growth will not cost as much money as our past growth has cost us.



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Ayush Mittal: So that is really excellent if we can do it and scale this up because this will free up the huge capital intensive that the balance sheet that we have had, so given that you are talking about traction in our niche products and outsourcing, it will be great if you can also share what kind of quantum are you looking to do or maybe in future if you can do that because many of the things have not been materially impacting the numbers of the community till now because they have been very small, so as per your comfort or as we progress maybe it will be great to hear something on that front?

Abhishek Mandawewala: Sure, right now it is barely 5%-6% of the total volume, but hopefully if the demand increases we can grow. Pre-COVID it had started to increase and then of course once the COVID came all outsourcing activities came to a standstill, but now we have resumed again. I think from a long-term perspective this is a very important part of the entire piece, so to bring the capital expenditure down and to bring the capital intensity of the business down.

Ayush Mittal: Totally agree, and the volume numbers for this quarter, can you please repeat that?

Himanshu Dhadha: Overall sales volume has been 11,855 tons.

Moderator: Thank you. As there are no further questions from the participants, I now hand the conference over to the Management for closing comments.

Himanshu Dhadha: Thanks for attending the call, thank you very much, stay safe and stay healthy.

Abhishek Mandawewala: Thank you everybody, I hope everyone has a wonderful festive season and Happy Diwali and Prosperous New Year to everybody.

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

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