



“Sarla Performance Fibers Limited Q1 FY-16 Earnings Conference Call”

August 3, 2015



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Moderator: Ladies and gentlemen good day and welcome to the Q1 FY16 Conference Call Sarla Performance Fibers hosted by Centrum Broking Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your Touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kaushik Krishnan. Thank you and over to you, sir.

Kaushik Krishnan: Very good evening to all the listeners. On behalf of Centrum Broking Limited I would like to welcome the management of Sarla Performance Fibers Limited today to discuss their Q1 FY16 Results. We have with us on the call Mr. Krishna Jhunjhunwala who is the managing director and Mr. Mahindra Seth who is the Chief Financial Officer. Now I request Mr. Mahendra Sheth sir to begin the call by giving his opening comments on the results post which we can begin the Q&A session. Over to you, sir.

Mahendra Sheth: Thank you, Krishnan. Good evening to all of you. The results are already published and let me begin with consolidated results. The turnover revenue is Rs. 79.96 crores that gives total expenses including cost of raw material and employee cost other expenses comes to Rs. 66.51 crores. That gives profit from the operations Rs. 13.44 crores for this June quarter.

Other income being Rs. 1.47 crores; profit from ordinary activities Rs. 14.92 crores. Finance closed is least at Rs. 1.48 crores that gives a net revenue of Rs. 13.43 crores and after providing for taxation of Rs. 3.38 crores the net profit after tax that is PAT comes to Rs. 10.04 crores. If you go to EBITDA margin EBITDA margin is at 23.42% and net profit margin is 12.52%.

This consolidated result includes Sarla India and Sarla Performance Fibers Limited; Sarla Overseas Holding Limited that our 100% WOH owned by Sarla India a BBI company and third is Sarla Flex Inc that is our US venture. These three together is our consolidated results.

Krishnan, now you can take over.

Kaushik Krishnan: May I request the Q&A session to begin?

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Pratik Bora an individual investor. Please go ahead.

Pratik Bora: Sir, my first question is like how is the USA plant picking up what is the expected capacity utilization this year and so like I understand at 100% capacity utilization it is expected to give Rs. 200 crores revenue. What revenue we have booked this year and how is the client reaction for the supplies? So where is the USA story I mean building up?

- Krishna Jhunjhunwala:** Basically the first quarter we have almost broken even. The total sales for the first quarter average close to 800,000 and the breakeven is close to a \$1 million. Total capacity the current capacity the revenue is about 36 million for the whole year if we run at full capacity.
- Pratik Bora:** So what has been revenue for this quarter from US?
- Krishna Jhunjhunwala:** \$2.3 million.
- Pratik Bora:** Sir, next question is like as I understand from the Q3 con call the company was expected to sign up a major client in Q1 FY16 is there any update on this?
- Krishna Jhunjhunwala:** Basically the major client I mean all the approvals have been done at that point they asked us to get the full basket of yarns approved which has been done. No, we have not yet signed the contract.
- Pratik Bora:** So sir, at this year that is in FY16 we expect to end up the USA plant at what capacity utilization?
- Krishna Jhunjhunwala:** Well, the minimum expectation I would say is we end up \$12 million of sales.
- Pratik Bora:** And sir, how about your Nylon 66 the Vapi plant?
- Krishna Jhunjhunwala:** The Silvassa plant that has stabilized we have got our required properties we start expecting to get full revenues from there in the third quarter of this year.
- Pratik Bora:** And what is the quantum of that revenue if you could share?
- Krishna Jhunjhunwala:** That should be it is roughly at the current capacity it should be Rs. 18 crores a year.
- Pratik Bora:** But as I understand this is the first year so would it operate at 100% capacity?
- Krishna Jhunjhunwala:** From the third quarter onwards, yes.
- Pratik Bora:** So Rs. 18 crores revenue is expected from Silvassa plant?
- Krishna Jhunjhunwala:** Yes.
- Pratik Bora:** And sir, as I understand like you were expected India operations to grow at 10% CAGR this year but in first quarter if I back compute I think it is India operation so like Q1 FY14 we had Rs. 70 crores revenue and Q1 FY15 we have Rs. 63 crores of revenue so I think there is a de-growth of 9.5%. So are we still hoping to meet the 10% guidance given for the standalone operations?
- Krishna Jhunjhunwala:** Yes.

- Pratik Bora:** So are the margins sustainable because this quarter we have seen a jump in margin and EBITDA margin, PAT margin as well. Is there any specific reason for the jump or is it because of drop in commodity prices or is there any operating efficiency which has led to this margins expansion?
- Krishna Jhunjunwala:** Well, like you said the drop in prices are also help but to the main help has come in from the US customers telling us that till we stabilize the US operations to deliver from the Indian plant to the some of the operations in China, Vietnam in the eastern hemisphere that help the Indian plant a bit.
- Pratik Bora:** So are these margins sustainable?
- Krishna Jhunjunwala:** Yes.
- Pratik Bora:** Sir, one penultimate question about the client concentration risk. I mean how do you see this is coming forward so is there any client concentration risk which we face or are the clients well diversified across the geography?
- Krishna Jhunjunwala:** Yes, I mean we do not have any client taking more than 5% of our sales. We do not even have a concentration like only North America, only Europe it is fairly spread up.
- Pratik Bora:** So just summing it up and help me understand if my understanding is correct. India operations growing at 10% so Rs. 275 crores was the revenue for FY15 so the 10% growth is Rs. 303 crores. US plant giving Rs. 72 crores of revenue so I have just converted Rs. 12 million and Nylon 66 that Silvassa plant also giving us Rs. 18 crores revenue. So FY16 revenue estimate would be somewhere around Rs. 390 crores to Rs. 400 crores number?
- Krishna Jhunjunwala:** Right, I mean you take the half the Rs. 18 crores because Rs. 18 crores I have mentioned for the full year for the Nylon 66 you take Rs. 9 crores for the six months.
- Pratik Bora:** So still we end up at around Rs. 384 crores of revenue?
- Krishna Jhunjunwala:** That is correct.
- Pratik Bora:** And if we are able to sustain the PAT margin then we can end up at PAT of around Rs. 41 crores?
- Krishna Jhunjunwala:** That is correct.
- Moderator:** Thank you. The next question is from the line of Saurabh Patwa from HDFC Mutual Fund. Please go ahead.
- Saurabh Patwa:** Sir, just one query. I think the employee cost has in absolute terms has fallen especially in the US is specific this for that sir?

- Krishna Jhunjhunwala:** Yes Saurabh, basically we cut down the excess labor we had employed excess people to train them to start with. That is one of the main reasons. We did not want to employ extra people till we stabilize more.
- Saurabh Patwa:** So you saw it is fair to assume if this is the current run rate at which the employee cost would be there or is it bound to increase it just a matter of one or two quarters where it is?
- Krishna Jhunjhunwala:** I would say like if we are able to achieve 12 million in sales like I am saying like we are projecting I think the employee cost from this quarter would go up maximum by 5% to 6%.
- Saurabh Patwa:** So similar to basically it would revert back what it could it is slightly lower than what it was earlier?
- Krishna Jhunjhunwala:** Correct.
- Saurabh Patwa:** Secondly, other expenditure has also come down sharply QoQ of course they are in line with what they were the same quarter last year but in absolute terms they are significantly down from last quarter. So again it is related to some cost cutting measures or it is just the seasonality because of which it was higher in last quarter?
- Krishna Jhunjhunwala:** Yes, it was higher in last quarter because of lot of provisions employee cost and all those things. Other expenses are because of provision it is more otherwise it will be maintained at these levels.
- Saurabh Patwa:** And similarly depreciation also is in very fluctuating normally earlier historically it used to be in close to similar in every quarter since last one year or so every quarter has been very volatile?
- Krishna Jhunjhunwala:** No, deprecation is because see it will be at June 2014 level. Why March was based because of provisioning of that new provision you have to recalculate your depreciation depending on residual life and all that is why March quarter is showing loss I mean less. Otherwise 2.5 will be maintained.
- Moderator:** Thank you. The next question is from the line of Ritesh Poladia from Girik Capital. Please go ahead.
- Ritesh Poladia:** Sir, sorry I joined a bit late. Is Nylon 66 plant stabilized now?
- Krishna Jhunjhunwala:** Yes.
- Ritesh Poladia:** And which are the major applications for which we are supplying?
- Krishna Jhunjhunwala:** Currently we still start supplying majorly for application like industrial fabrics, sewing threads, delta fabrics and then later on go in to air bags.

Ritesh Poladia: So this transition would be approximately what would be the time frame?

Krishna Jhunjhunwala: We are projecting on the third quarter of this year.

Ritesh Poladia: And now since this plant is stabilized so are we going to increase the capacity from Nylon 66?

Krishna Jhunjhunwala: Yes.

Ritesh Poladia: So then that can get commissioned?

Krishna Jhunjhunwala: I can safely say a year's time from now.

Ritesh Poladia: So say next year after first half that also would get commercialized?

Krishna Jhunjhunwala: Correct.

Ritesh Poladia: Sir, can we have the volume numbers for standalone as well as subsidiary?

Krishna Jhunjhunwala: You mean separately?

Ritesh Poladia: Yes.

Krishna Jhunjhunwala: Sure, it will be on the website I think by today evening or tomorrow morning.

Ritesh Poladia: Okay, I will source it from there. Secondly, our gross margin in the subsidiary if I reduce standalone from consol so our gross margin is about 75% sequentially it has come down from about 78%. This is definitely because of the raw material fluctuation but is this numbers would be consistent going forward?

Krishna Jhunjhunwala: Yes.

Ritesh Poladia: So we are looking at about 70% to 75% gross margin on the US subsidiary?

Krishna Jhunjhunwala: Yes, current level will remain.

Ritesh Poladia: And what is the utilization for US subsidiary?

Krishna Jhunjhunwala: About 31% to 32%.

Ritesh Poladia: And any approvals from there?

Krishna Jhunjhunwala: Yes, as just mentioned earlier we have got the whole basket of yarns approved for one main customer.

Ritesh Poladia: So this utilization level can go up in next two quarters?



- Krishna Jhunjhunwala:** Yes, that is what we are projecting. We are projecting to reach at least minimum sales of 12 million for the year.
- Ritesh Poladia:** And last question. What is the US revenue in dollar terms in this quarter?
- Krishna Jhunjhunwala:** \$2.34 million.
- Moderator:** Thank you. The next question is from the line of Amit Yadav an individual investor. Please go ahead.
- Amit Yadav:** I have just one follow up question on the question that you have already answered. This US that we are projecting of 12 million from this quarter which is translating in to some around 33% of capacity utilization as the full you mentioned is probably 36%. So just to get an idea when can we expect it to be like a full capacity utilization within the two years' time from now or FY17?
- Krishna Jhunjhunwala:** Safely yes.
- Amit Yadav:** FY17 we can expect it to be steeper that optimum level of utilization.
- Moderator:** Thank you. The next question is from the line of Gaurav Mehta from AQS Advisors. Please go ahead.
- Gaurav Mehta:** Sir, just one question on the employee cost. You mentioned in the US that you have ramped down the trained employees how easy will it be for you again to ramp up I mean once you start increasing your utilizations?
- Krishna Jhunjhunwala:** No, basically we had extra people so to weed out the bad ones to see who are getting trained and who are disciplined. So we had to start with employed extra people.
- Gaurav Mehta:** And sir, just to understand what is creating this bottleneck that the ramp up is slower or say this year it is 31% and in the next two years you are assuming up to 100% utilization what is the bottleneck or where are we?
- Krishna Jhunjhunwala:** See what happens over there it is like basically today you are going to sell to a large corporation so they want to see how stable you are in your supplies and everything. They do not take decisions to change over easily. Basically it is for example you try and supply to a smaller company and supply to example a Lever so the procedure and the time taken to get in to supply to a company like Lever would be lot longer than to a smaller company.
- Gaurav Mehta:** Any road blocks you envisage which might delay the capacity expansion or the capacity utilization which you are foreseeing?
- Krishna Jhunjhunwala:** I would say maximum by 6 to 8 months.

- Gaurav Mehta:** And once the customer switches how easily it is for them to again switch back to their old suppliers?
- Krishna Jhunjhunwala:** That is the beauty of it basically once we give you the business at least as a track record we had for example one of the largest customers there we been supplying them from the India operations from 2006. So once we stay they obviously stay with you.
- Gaurav Mehta:** And sir, recently there were noises about CAFTA and NAFTA where there would some agreement wherein other countries like Thailand and all would be allowed to export yarn?
- Krishna Jhunjhunwala:** You are mentioning is the TPP?
- Gaurav Mehta:** Yes.
- Krishna Jhunjhunwala:** Which is basically Vietnam and adjoining countries?
- Gaurav Mehta:** Sure.
- Krishna Jhunjhunwala:** Basically the rule still would say fiber forward means the yarn has to from the US or these TPP countries. Means you cannot use China or India which are the main two producers of these yarn. That is the advantage of TPP.
- Gaurav Mehta:** But sir, Vietnam coming in will that have an impact on our realizations in any form?
- Krishna Jhunjhunwala:** So that is what I meant that today virtually the major producers of polyester worldwide are India and China about 90%. So unless somebody goes and puts up a plant in Vietnam when PPP comes in and that could affect.
- Gaurav Mehta:** How easy is it for someone to put up a plant in Vietnam any idea?
- Krishna Jhunjhunwala:** Potentially is there but to my knowledge and whatever I have talked to people associations CAFTA and NAFTA would continue irrespective of PPP. I mean large corporations have investments made already in Mexico and the Central America countries. It is not easy for them to shift overnight or even in three or four years. Continue side-by-side even if PPP get past.
- Gaurav Mehta:** And sir, one medium term question is after FY17 I believe you would be starting phase two is that correct understanding?
- Krishna Jhunjhunwala:** Yes.
- Gaurav Mehta:** And what about India sir, how would India grow I mean for the shorter term to medium term growth apart from Nylon 66 where you just mentioned any other things which we are looking at?

- Krishna Jhunjunwala:** Basically we have a 10% growth so we are projecting that over and above the Nylon 66.
- Gaurav Mehta:** And sir, what do you of that cash which you generate now I mean since major CAPEX is almost out?
- Krishna Jhunjunwala:** Right now it all in fixed deposits in the bank.
- Gaurav Mehta:** No chances of increasing the dividend or something like that?
- Krishna Jhunjunwala:** We will.
- Gaurav Mehta:** And sir, one last question. In US I think they are still making losses on the EBITDA level?
- Krishna Jhunjunwala:** No.
- Gaurav Mehta:** At what level will you breakeven or you have already broken it?
- Krishna Jhunjunwala:** Close to breaking even almost broken even.
- Gaurav Mehta:** Sir, when you say this year you would be breaking even on US?
- Krishna Jhunjunwala:** Yes.
- Moderator:** Thank you. The next question is from the line of Vaibhav Bid from Motilal Oswal Securities. Please go ahead.
- Vaibhav Bid:** Sir, just one thing your margins have short up this quarter what will be the major reason because your employee cost is gone down and your raw material cost has actually increased percentage wise?
- Krishna Jhunjunwala:** The major reason Vaibhav, is like as I said some of the US customers are diverting some of their business to the India operations for their plants in Israel, Jordan, Thailand, Vietnam, etc. That is one of the major reasons.
- Vaibhav Bid:** But how does that affect the margins?
- Krishna Jhunjunwala:** Today value added products it definitely would.
- Vaibhav Bid:** No, like are you getting higher realizations in those products?
- Krishna Jhunjunwala:** Yes, that have been our target from day one.
- Vaibhav Bid:** Because you have reached I think EBITDA of 21% so is this sustainable?
- Krishna Jhunjunwala:** Close to it I think close it on the consol basis with the US streamlining, yes.

Vaibhav Bid: And sir, so what is the situation at US operations like are we planning for at least 50% utilization this year?

Krishna Jhunjhunwala: We are projecting 35%.

Vaibhav Bid: For this year?

Krishna Jhunjhunwala: Yes. See on the safer side I mean I love it to go up to 50% like you are saying or even more.

Vaibhav Bid: Okay, so at 35% what will be the revenue projections?

Krishna Jhunjhunwala: 12 million.

Vaibhav Bid: And sir, on the Nylon 66 side any particular significant increase in orders or something?

Krishna Jhunjhunwala: Like I mentioned earlier we have fully achieved all the property levels what we need. From the third quarter onwards we will see that plant be utilized.

Vaibhav Bid: But how big is the market we targeting for Nylon 66?

Krishna Jhunjhunwala: See there are two main customers in India who import about 1,500 tons of this product. Our capacity of the pilot plant is 500 tons. So currently we will just these two customers already buying the other products from us. Currently our capacity is 500 tons. So we are basically one-third of their imports today.

Vaibhav Bid: So are we going to increase that?

Krishna Jhunjhunwala: Yes, we will be increasing the capacity in one year's time or about one year to 15 months.

Vaibhav Bid: So at full capacity 500 tons is 45 crores or 40 crores?

Krishna Jhunjhunwala: 18 crores.

Vaibhav Bid: And on the domestic side how is the environment in terms of the pricing of yarns?

Krishna Jhunjhunwala: Basically it is over capacity in the domestic market.

Vaibhav Bid: So are we I mean how are the realizations are there still at a stable level or they are increasing?

Krishna Jhunjhunwala: We are not focusing on the domestic market at all. We are primarily exporting all the products.

Vaibhav Bid: And sir, in terms of the employee cost how is it come down this quarter any particular reason?

Krishna Jhunjhunwala: We reduce the people in the US main reason.



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Vaibhav Bid: And any significant order from any US client big client? Because I think you were testing with few of the clients for the US operation, right sir?

Krishna Jhunjhunwala: We have got the complete approvals from one major client for all the basket of yarns.

Vaibhav Bid: Like for the US operations or India?

Krishna Jhunjhunwala: US.

Vaibhav Bid: But that has already are customer point operations?

Krishna Jhunjhunwala: Yes from 2006.

Vaibhav Bid: And how much percentage of your sales that would customer form currently?

Krishna Jhunjhunwala: Well, right now nothing. But that customer buys from our competitor roughly \$90 million a year.

Vaibhav Bid: Is that client of yours in the India operations or not?

Krishna Jhunjhunwala: Correct.

Vaibhav Bid: So how much currently he contributes?

Krishna Jhunjhunwala: India operations buying roughly Rs. 36 crores Rs. 40 crores a year.

Vaibhav Bid: And you cannot name the client, right sir because of confidentiality?

Krishna Jhunjhunwala: Yes.

Vaibhav Bid: And also what is the growth that you are projecting this year any guidances?

Krishna Jhunjhunwala: 10% growth for India.

Vaibhav Bid: And for global?

Krishna Jhunjhunwala: US like I mentioned \$12 million of sales.

Vaibhav Bid: Sir, on the margin front we can still see some expansion or this is the highest level?

Krishna Jhunjhunwala: Around this level.

Moderator: Thank you. The next question is from the line of Sunil Jain from Nirmal Bang Securities. Please go ahead.

Sunil Jain: Sir, is it possible to share your current year revenue and EBITDA US company?

Krishna Jhunjhunwala: It is there on the website already.

Sunil Jain: And sir, the second phase of expansion which we were planning in September and all is it on track or it is getting delayed?

Krishna Jhunjhunwala: See basically the idea was that once the US operations stabilizes we go in immediately for the expansion.

Sunil Jain: So is it the timeline decided or still you will be waiting for that?

Krishna Jhunjhunwala: Yes.

Sunil Jain: And sir, at \$12 million revenue how much EBITDA we can do?

Krishna Jhunjhunwala: See currently it is 15.38 we can take 20%.

Management: Roughly 20%.

Moderator: Thank you. The next question is from the line of Ritesh Poladia from Girik Capital. Please go ahead.

Ritesh Poladia: Sir, since one of the customer has approved in the USA for all the yarns can we expect now the Phase-2 green light in this year itself?

Krishna Jhunjhunwala: I hope so.

Ritesh Poladia: And say from day zero how much time it will take to commission the Phase-2?

Krishna Jhunjhunwala: Between 9 to 12 months.

Ritesh Poladia: So Nylon 66 and Phase-2 both can hopefully give meaningful returns from second half of next year?

Krishna Jhunjhunwala: Yes.

Ritesh Poladia: And sir, what would be the CAPEX for Nylon 66 Rs. 10 crores to Rs. 12 crores or more?

Krishna Jhunjhunwala: No less Rs. 4 crores to Rs. 5 crores.

Ritesh Poladia: Because all the utilities are in place? And US Phase-2 would be?

Krishna Jhunjhunwala: About \$10 million to \$11 million.



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- Ritesh Poladia:** Sir, would there be any Fiscal benefit for Phase-2?
- Krishna Jhunjhunwala:** Fiscal benefit in the US?
- Ritesh Poladia:** Yes.
- Krishna Jhunjhunwala:** Basically we have continued the 50% bonus depreciation policy. So that would be there. And we also be eligible for the new market tax credit which we got for the Phase-1 that also we are eligible for which is roughly 25% the loan amount is waived off of the investment we waived off.
- Ritesh Poladia:** So about \$2.5 million to \$3 million work new market tax credit we can expect?
- Krishna Jhunjhunwala:** Yes.
- Moderator:** Thank you. The next question is from the line of Gaurav Mehta from AQS Advisors. Please go ahead.
- Gaurav Mehta:** Sir, just one question on the US plant in the EBITDA margin you mentioned that these are sustainable. My understanding was this would go up because your US operations are at I think around 35% utilization?
- Krishna Jhunjhunwala:** That is what I mentioned Gaurav that currently is at 15% roughly. For the year we would expect to be at 20%.
- Gaurav Mehta:** Sir, but for the year that means 35%. I was assuming in case you would reach peak but potential assuming 100% utilization in the next couple of years your margin should inch up more, right?
- Krishna Jhunjhunwala:** Yes.
- Gaurav Mehta:** So your peak margins would be close to how much I mean if you could?
- Krishna Jhunjhunwala:** We have assumed roughly sales of \$30 million 25% EBITDA for the US.
- Gaurav Mehta:** And sir, what about the working capital could you help me with the working capital requirements from the US?
- Krishna Jhunjhunwala:** Primarily we import our chips so we work on non-fund base LC limits so opening an LC in favor of any other chips suppliers. So normally we would have open a 180 day LC or a 150 day LC so we can rotate our working capital requirements.
- Gaurav Mehta:** So in terms of day sir, I mean would it be I was just looking in terms of networking capital in terms of days?



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- Krishna Jhunjhunwala:** 150.
- Gaurav Mehta:** 150 days?
- Krishna Jhunjhunwala:** Yes.
- Gaurav Mehta:** So this would be primarily driven by sir, what higher inventory or higher debt or dates?
- Krishna Jhunjhunwala:** No, because we are importing the raw material I have assumed 30 days in soft and 30 days on the water and 30 days LC opened. That is 90 days. Then 30 day's debtors and 30 days stock.
- Gaurav Mehta:** And sir, what is the product mix in USA plant as of now?
- Krishna Jhunjhunwala:** Product mix that is only polyester there.
- Gaurav Mehta:** So this would be all commodity-commodity and then you would basically change it to more value added products?
- Krishna Jhunjhunwala:** Right now it is all commodity.
- Gaurav Mehta:** And eventually I mean once this is more in the medium term the product mix would get changed?
- Krishna Jhunjhunwala:** Yes.
- Gaurav Mehta:** And what is the product mix in the Indian operations or is it there on the website I am not aware?
- Krishna Jhunjhunwala:** You mean the end applications?
- Gaurav Mehta:** No, in terms of say commodity, non-commodity value add?
- Krishna Jhunjhunwala:** I do not think it is on the website but I can definitely give that I will send to you.
- Gaurav Mehta:** So I can put you a mail, sir for that?
- Krishna Jhunjhunwala:** Sure.
- Moderator:** Thank you. The next question is from the line of Pratik Bora and individual investor. Please go ahead.
- Pratik Bora:** Sir, one question on more on business like what is our product USP, how do we safeguard our margins from raw material or cotton price swing the currency fluctuation and how do we

ensure client stickiness? Are we able to pass on the prices to clients or how do we manage on that front?

Krishna Jhunjhunwala: See basically the idea Pratik, has been from day one to have the raw material to sales ratio as low as possible. So once you have that minor fluctuation in the raw material would not affect your margins. And traditionally in polyester and nylon fluctuations have not been as large as you seen in natural item like cotton.

Pratik Bora: And sir, how do we ensure client stickiness? Given the competition how do we safeguard that the client does not switch to our competitor?

Krishna Jhunjhunwala: Basically once you are providing the client something different like a package or a mold he normally would take a year, year-and-half to develop with another supplier. You are looking at just from the yarn point of view. There are certain other details which the client wants and we have catering to those clients mainly wherein if they want to change their supply it will take them a year, year-and-half to develop with another supplier. So as long as we are consistent in our supplies and services so normally for \$0.10 to \$0.15 they will not change. At least that is what the track record has been.

Pratik Bora: Sir, how do we protect ourselves from currency fluctuation?

Krishna Jhunjhunwala: We are naturally hedge the imports from more or less equal to our exports.

Moderator: Thank you. The next question is from the line of Gaurav Mehta from AQS Advisors. Please go ahead.

Gaurav Mehta: Sir, in the USA how do you price your products is it cost plus?

Krishna Jhunjhunwala: See basically there is a market price. And today our company used to see much more is started out to be able to price that way. It is primarily offering the customer a small discount at the current price prevailing in the market.

Gaurav Mehta: And our realizations would be higher because of the duty differential versus India and China?

Krishna Jhunjhunwala: See we are not targeting the India and China import market there. Our target market there is only the customers who would need a US plant.

Gaurav Mehta: Sir, my question was since you are the first company to set up a plant over there you would be priced makers?

Krishna Jhunjhunwala: No, we are not the first company we are the first company after 200 to set up over there.

Gaurav Mehta: So who would be your competitor sir, in case?

- Krishna Jhunjunwala:** The biggest one is Unifi it is a listed company you can go through their website.
- Gaurav Mehta:** So the pricing is determined by these guys and then you follow is that?
- Krishna Jhunjunwala:** Yes.
- Gaurav Mehta:** And the pricing would be again related to your raw material I think is this is like a fixed price or again?
- Krishna Jhunjunwala:** I mean today like take a pricing in India for example this yarn. There is one biggest producer and these are market price set by him. I think the rest of everybody else is plus, minus a percent or two of that price.
- Gaurav Mehta:** So in India my assumption was Reliance would set the prices right?
- Krishna Jhunjunwala:** Correct.
- Gaurav Mehta:** And everybody follows that?
- Krishna Jhunjunwala:** Correct.
- Gaurav Mehta:** So in US is the price similar to what it is India or there is a duty differential or you do not target that only?
- Krishna Jhunjunwala:** No, we are not targeting the price from India or adding the duty also like not targeting any import prices over there. But we are targeting the price I will say for example this largest competitor are they selling to a customer and we probably offer a few cents lower than what he is getting from the existing suppliers.
- Gaurav Mehta:** Sir, let me ask this question the other way around. I mean if I just put in the numbers which you just said for the US operations the ROCs which you generate on more than 25% to 26% so I was just trying to understand how is it that the payback period is 3, 3.5 to 4 years when you producing a commodity product where you do not have pricing power so?
- Krishna Jhunjunwala:** Do you get the PCI fiber I can send that across to you then you can have a look at the pricing prevailing in Asia and in the US. That will give you a good idea.
- Moderator:** Thank you. The next question is from the line of Vaibhav Bid from Motilal Oswal Securities. Please go ahead.
- Vaibhav Bid:** Just one question. This new client that is approved us some samples how big is the order if we actually get it and what are we waiting for now?

- Krishna Jhunjhunwala:** We are ready to supply just waiting for him to start placing the orders but his potential is around \$90 million so it gives us 10% of \$9 million; 20% is \$18 million.
- Vaibhav Bid:** But how much can we actually give to him I mean at peak-peak?
- Krishna Jhunjhunwala:** Our capacity is \$36 million. 50% of the capacities we can make.
- Vaibhav Bid:** So how much do we expect to actually get from them any expectations or it will be random?
- Krishna Jhunjhunwala:** I would say at least between 10% to 20% in two years' time.
- Vaibhav Bid:** And this is the same supplier who takes from Unifi also?
- Krishna Jhunjhunwala:** Yes, actually this figure of \$90 million is in the Unifi website.
- Vaibhav Bid:** I mean they take from Unifi \$90 million worth of goods every year?
- Krishna Jhunjhunwala:** Yes.
- Vaibhav Bid:** And sir, how big is the market there for your commodity yarn?
- Krishna Jhunjhunwala:** Well, at the Unifi sales they are about \$900 million or close to a \$1 billion. And there are couple of other competitors who I would say be \$0.5 billion. So about \$1.5 billion for CAFTA and NAFTA yarn.
- Vaibhav Bid:** And sir, I mean how difficult would it be for any other Indian player to set it up there? I mean I am sure I know that you have got the land at a very cheap valuation?
- Krishna Jhunjhunwala:** Yes, hard work that is all.
- Moderator:** Thank you. The next question is from the line of Nidhi Agarwal from Sharekhan. Please go ahead.
- Nidhi Agarwal:** My first question is if you could give me geographical and segmental break up of revenue for this quarter?
- Krishna Jhunjhunwala:** Can we have an e-mail to you?
- Nidhi Agarwal:** Yes, that will do. And sir, I think previous participant also asked this question but we are hearing that domestically one of the players is thinking of setting up this Nylon 66 plant so how secure are we in terms of margins and sales?
- Krishna Jhunjhunwala:** Can you share who is putting it up?



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- Nidhi Agarwal:** We heard that Welspun Syntex is planning to set up.
- Krishna Jhunjhunwala:** See it is the large enough market for as I said it is two customers are importing nearly here. Welcome to.....
- Nidhi Agarwal:** I mean how they gets on market for Nylon 66 in India?
- Krishna Jhunjhunwala:** Like I said these two main customers are importing 1,500 tons. I mean actually researched the remaining. Our target was mainly these two customers.
- Moderator:** Thank you. As there are no further questions, I would now like to hand the floor over to Mr. Kaushik Krishnan for closing comments.
- Kaushik Krishnan:** On behalf of Centrum Broking I would like to thanks the management of Sarla Performance Fibers to attend the con call and give their views on the results. Sir, would you want to give some closing comments on your results?
- Mahendra Sheth:** Krishnan, only one thing. Segment wise result is already there on BSE and company website along with the consolidated results we have given segment wise result also. So just to clarify it because somebody wanted this and we said we will send you on e-mail but it is already there.
- Kaushik Krishnan:** Okay, thank you very much.
- Moderator:** Ladies and gentlemen, on behalf of Centrum Broking Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.