



“Banswara Syntex Limited Q4 FY-18 Earnings Conference Call”

May 31, 2018



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Moderator: Ladies and gentlemen, good day and welcome to Banswara Syntex Limited Q4 FY2018 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. 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 this 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. Ravindra Toshniwal – Managing Director of Banswara Syntex Limited. Thank you and over to you sir.

Ravindra Toshniwal: Good afternoon. Thank you very much. A very warm welcome to everyone for our quarter 4 FY18 earnings call of Banswara Syntex. I have with me on this call Mr. J .K. Jain, our CFO and SGA, our Investor Relations Advisors. Let me take you through the performance for the year.

It has been a very challenging year and in fact, it has been a very challenging set of 2 or 3 years with the multiple factors that are causing headwinds to most of the players in the textile industry in India and we are no exception to that. There have been increases due to increases in the prices of the raw material on polyester, viscose and wool. There has been an increase in employee cost in the textile industry due to the various amount of absenteeism and the increase in the index wages particularly due to the various schemes of the government like NREGA. Pet coke has been banned as a fuel and we were using this earlier and have not now been allowed to use it which has increased our own generation cost of power. And there has been a reduction in incentives against the export of 8% to an average of 2% after the implementation of the GST as well as this duty drawback changes and the currency appreciation last year has also not been favorable.

In spite of all these headwinds which are in general, the industry phenomenon, we saw quiet year and in general, the EBITDA fall has been very marginal compared to last year. And we are working on different strategies now to reduce our costs as well as give more margin articles. Banswara Syntex is trying its best even in the worst hit division where we have lot of headwinds due to the wool price increases but are managing to create value through our stretch based Lycra fabrics. 65% of our business has now become fabric and 35% is yarn. There is continuous improvement in the value addition and we hope this will help us to get back to the EBITDA margins of before. We continue to hire talent to do the design and product development from various European sources. And our customer base remains constant with not many changes at all. We have made a partnership with the Japanese Company, Takisada that continues and our European joint venture is now nearing finalization. We have extended into Korea and other far East markets and our partnerships with global players is essential for us to reach our global markets and give us an insight into the ever-changing fashion trends and



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help us to predict where the market will go. We continue to work on all of our value added production strategies and also the focus particularly in this year will be on cost reduction. We hope that with the settling down of the GST, the improvement in the currency, we should be able to come back to the EBITDA margins of 2016-17 at the earliest. Thank you. I will hand over the phone now to Mr. J. K. Jain.

J. K. Jain:

Thanks, Mr. Toshniwal. Good afternoon everyone. The audited working results for the Company for the financial year 2017-18 are already with you. This was the first result prepared by the company in the IndAS provisions, so the data in the financial statements have been regrouped and rearranged wherever necessary to make them comparable. The overall revenue for Q4 FY18 at Rs. 328 crores against 318 crores in Q4 FY17. There is a marginal increase in the quarterly turnover. The yarn contributed about 29% in the topline, fabric 48% and garment 20%. So as we are consistently saying that our share in the fabric and garment business would increase, the same thing happened during this quarter as well as for the full year. The full year revenue for FY18 at 1,293 crores as against 1,244 crores, up by 4%. For the full year also, the yarn contribution is 33%, fabric 45% and garment 20%. So overall contribution of the fabric and garment is 65%.

The EBITDA for Q4 '18 at 33 crores as against Q4 of the last year 34 crores. The margin was 10% during FY18 against 10.65% in Q4 FY17. So the margin during Q4 is slightly lower. EBITDA for the full FY17-18 at 131 crores as against last year 145 crores. The EBITDA margin for this year is 10.16% as against last year 11.7%. The decline in the margin is attributed to the increase in raw material costs, power and fuel cost, employee costs etc. As we are saying consistently that our net debt would reduce, the net debt as on 31st March 2018 is 518 crores as against last year 537 crores. The term debt for the borrowings for the fixed rate is 184 crores and working capital borrowing is 294 crores. This will further reduce by about 40-50 crores in the year FY18-19. The company has not planned any major CAPEX during the next few years and no major borrowing is proposed for the investment in fixed assets. So the overall debt burden is likely to go down in the coming years. Now, we open the floor for question and answers please.

Moderator:

Thank you very much sir. Ladies and gentlemen, we will now begin with the question and answer session. We have the first question from the line of Ram Khanna from Ariston Capital. Please go ahead.

Ram Khanna:

Could you please elaborate a bit on the change in inventories of finished goods as you have seen in this quarter please?

J.K. Jain:

Yes. During this quarter, the finished goods and stock in process has reduced by about 30 crores. In the Q4, we have sold substantial quantity which was built into the inventory in Q2 and Q3. We accumulated inventory in Q2 and Q3 which was sold out in Q4. And overall for



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the year also if you look at the overall inventory of finished goods and stock in process has gone down by about 9 crores. Q4 was the major contributor for the reduction in the inventory.

Ram Khanna: Just one more question sir. With respect to GST, could you tell us what is the receivables pending or if there is any?

J.K Jain: Yes, the total amount blocked in GST as of 31st March was about 45 crores and in the past scenario, pre-GST scenario, it used to be somewhere around 20 crores. So about 25 crores additional ones blocked in the GST raring or after the implementation of GST.

Ram Khanna: So can we assume for next year when you were talking of debt reduction of 40-50 crores, you have taken about 20-25 crores of swing up on the GST and the additional coming in from your cash flow from operation?

J.K. Jain: No, both things will contribute. Funds involved in GST will reduce. The entire contributed in the increase in GST is not by the bank borrowing, it maybe by other creditors also. So we cannot say that the entire 25 crores will come out of GST. We are earning and we have the cash flows and the term loans will be repaid. During this year, we have the repayment of about 50 crores during this year and that would be the main reason for reduction in the borrowings.

Ram Khanna: And so this will primarily be funded from your internal cash flows?

J.K. Jain: Yes. That's right.

Moderator: Thank you. The next question is from the line of Shivam Vashi from Alpha Alternatives. Please go ahead.

Shivam Vashi: Sir the question is on the commentary of the cost reduction part, so sir is it like the Company doesn't see realizations improving so just trying to concentrate on cost reduction to improve profitability?

Ravindra Toshniwal: See the cost reduction has become important because we have seen reduction in EBITDA margin of about 1.4% from last year. This means that all of the increases in cost are not being absorbed by the customer in the final price. So we are managing to get some of the costs absorbed and that's a good sign. But not all of the costs has been absorbed and we have to find ways in which we can outsource certain amount of production at lower cost and manage to reduce the cost where our costs are higher and reduced some fixed costs also from our capital base which are not contributing and which can get those jobs done cheaper outside. And in the end, we are governed by market price to some extent and cannot sell above market price, so there is a need to reduce cost internally.



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- Shivam Vashi:** So sir in domestic market, where do you see now world textile industry heading? It has been a very tough year since the demonetization and GST. But demonetization is now more than a year and GST is almost 9 months since it has been in place. So now do you see the market has now absorbed everything, what's the way forward, what's your opinion on that?
- Ravindra Toshniwal:** The market conditions domestically remain very tough. And it will be challenging at least for the next 6, 7 months. There are some early green shoots of some sort that we can see happening now that the market is coming closer to Diwali and there has been some good offtake, in the month of May for example we have dispatches which are better than planned before. So overall we have to still observe for some time before the market settles down. It still remains the election year and it still remains the year in which lot of concessions could come from the government and cause certain concerns to us in terms of the labor availability. That is one concern.
- Shivam Vashi:** But sir what we have observed is like the forward chain or values chain, the brand have been performing really good. It's just that the backward integration player have been struggling. So why this gap? Do you have any opinion on this, there is some gap on the performance of the brand other than the non-brand players?
- Ravindra Toshniwal:** I think the brand players also had a drop in performance overall. Whether you go for branded or unbranded, overall the margins have been under pressure especially with all of the consolidations happening in the e-commerce front. There have been losses which the e-commerce company has been making and passing on to the consumers and we have to yet wait for the system to get more stable. We are still seeing very many challenges but one big opportunity for us in terms of at least the export part is that we have the possibility now of getting Rs. 68 or so as compared to last year we were at around at an average of Rs. 62, Rs. 63 a dollar. So we are getting an appreciation of around 7% or 8 % in our export turnover. That should be helpful to some extent. The prices with consumers are locked and that will not reduce.
- Moderator:** Thank you. The next question is from the line of Ranjith Kothari who is an individual investor. Please go ahead.
- Ranjith Kothari:** If you see the cost of crude oil has gone up by around 10% in last quarter. Around like 2 months.
- Ravindra Toshniwal:** Correct.
- Ranjith Kothari:** Could you help me understand like what is the impact on our cost especially the raw material cost?



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- Ravindra Toshniwal:** The impact is mainly on polyester as well as all dye stuff in intermediates that use petroleum base as their main raw material. So we will see an impact and we have seen an impact of polyester price increases to the extent of, from last year to this year the increase has almost been around 20%. We have added 20% increase from one year. You have only talked about a month's increase but if you look at crude from last year to this year, the overall change in the crude price has resulted in the price of polyester going up by 20%. And for us this has been the challenge, that with an increasing scenario of raw materials we have not been able to recover the full cost from the customers and we have been a little bit behind.
- J. K. Jain:** Besides what Mr. Toshniwal has stated, increase in crude oil prices has also increased our power cost because coal prices are also linked with the fuel prices. And power also account for about 8% to 9% of our production value. So there has been a phenomenal increase in the power cost. During the last financial year, the power cost has increased by about 20 crores and that is very substantial. Similarly, the ocean freights and the local freights, these also account for a substantial portion. In all these expenses, there is a direct impact of increase in the crude oil prices.
- Ravindra Toshniwal:** So we are linked to that crude oil price increase. We have experienced various increases maybe to the extent of around Rs. 24 or 25 crore in the last financial year itself. If this crude price now stabilizes or drops, it will be a significant gain for us because now the new benchmark of pricing has been established.
- Ranjith Kothari:** If we see you have a contract of around 6 months with our customers?
- Ravindra Toshniwal:** Correct.
- Ranjith Kothari:** So have you been able to pass on the cost or did they agree to give you the new pricing with change in crude oil price?
- Ravindra Toshniwal:** They have agreed but they will agree only in the next quarter. So what we have been able to pass on is with a lag. There has been a delay in passing on by 6 months and since the increase has been continuous for 1 year, we are lagging behind by about 6 months in passing increase. The question is now what happens when the crude prices stabilize, then we will still get that 6 months of benefit which we pass on even though prices drop. And we will also get the benefit of the currency. So this is a two way thing, if the customer is locked into the contract, the contract is valid both ways. He will not reduce the price, and we are not allowed to increase the price.
- Ranjith Kothari:** And sir, coming to the power and fuel costs after the ban on use of pet coke for Rajasthan, what are the alternative sources you are thinking to source power from like?



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- Ravindra Toshniwal:** Basically power consumption is a day to day affair. The pet coke was banned in the first week of December and after that, we are not using and we are consuming mainly the US imported coal and Indonesian Coal. These are the two high GCV coals. These are available in the markets but the pricing is about 16% to 17% costlier than the pet coke. Availability of the coal is not an issue, the issue is pricing of the coal.
- Ranjith Kothari:** Yes. Exactly if you see pet coke used to produce more calories compared to these kinds of coals. So if you see comparatively, our cost of power is going to be high compared to what we used to have during we used to use pet coke. So any other source like, any alternative sources or you are thinking for solar, wind or from Power Discoms?
- Ravindra Toshniwal:** So we have examined the possibilities of those sources, but at this point if we look at the difference between running our own thermal generation internally versus buying from R.E.C.B., Discom, we are getting an advantage already. And if we buy the solar power from the grid, then we have the wheeling charges and extra cost to pay, it comes to be more expensive than our thermal generation. So it is still not an alternative to buy solar power or have solar power coming in with wheeling charges applying. It is only if this solar is installed internally without wheeling, then it will have an advantage for us. So that decision we don't want to take at this moment. We will probably take it only in a later period. At this moment, we should assume for the next financial year that there will be no change in the power cost scenario and we can assume that we have factored in and already accounted for a 20 crore increase from last year in the power cost and the similar cost will prevail for next year.
- Moderator:** Thank you. The next question is from the line of V P Rajesh from Banyan Capital. Please go ahead.
- V P Rajesh:** Just wanted to get a sense from you given all the headwinds you have described that the business has faced in this year. You think your EBITDA margins have sort of bottomed out or you are still seeing more headwinds in the current financial year?
- Ravindra Toshniwal:** Yes, I am saying I definitely think it has bottomed out. If you look at our EBITDA margins over the last 5 or 6 financial years, this is probably the lowest EBITDA margin we have right now. And we have had periods in 2013-14 when it went up and then again in 2015-16, it went up but between in that 2014-15 period, it had again gone down. So this is one of those cyclical downs that has happened also which is industry wide because if you compare or cross RSWM and Sangam and the total industry in general you will see that the downward trend has been very severe in this year and this is part of that problem that we are facing. Next year, we expect definitely to come back to the EBITDA margin what we got in 2016-17. That 1.5 to 2% drop we expect to recover back. That is at least a minimum that we expect. Also in the topline, we expect to get an 8% to 9% increase over this year's sales. So we have had a topline increase over last year and we expect to get a further topline increase of 8% to 9% going almost to



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around 1400 or without any CAPEX. So we are getting a topline increase without CAPEX as well as we are trying to get the EBITDA margins back up and our repayments will be less next year. So the finance cost should further reduce.

V P Rajesh: So if I do just ballpark numbers, you think basically or let's say 1400 crores of topline and assume 150 crores of EBITDA on that, is that a fair assumption?

Ravindra Toshniwal: So we are at 131 crores of EBITDA now.

V P Rajesh: It's showing 111 in the presentation right now.

J. K. Jain: No, it is in absolute terms.

Ravindra Toshniwal: I am talking about the total profit before interest depreciation and tax.

V P Rajesh: So you are probably adding other income into that?

Ravindra Toshniwal: Yes, that other income is not actually other income. It is really only gratuity that is to be accrued for the future of the employee now as per the new IndAS has to be taken as other income which is part of the other comprehensive income. We are including that as part of the income because it is not something that is due today. It is an accrued liability for future.

V P Rajesh: So your EBITDA as per you is 133 crores this year?

Ravindra Toshniwal: 131.

V P Rajesh: And where do you see it going up to next year then?

Ravindra Toshniwal: Yes. So we are expecting to come back to around 145 to 150.

V P Rajesh: From this 131 number?

Ravindra Toshniwal: Yes. From 131, we expect to go up to 150 and the turnover from 1,293 to 1,400.

V P Rajesh: And what can be the further push back that sort of guidance for the simple reason that crude can continue to move up which can again have impact on your raw material cost and demand situation may not pick up. So I am just trying to assess the risk from hereon of you guys not getting the number that you think you can do next year?

Ravindra Toshniwal: Yes. I mean, one of the risks is always currency. If the rupee remains strong, we have a very good chance of hitting this and if it becomes stronger we can even exceed it.



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- V P Rajesh:** You mean stronger or weaker?
- Ravindra Toshniwal:** The rupee becoming weaker. I mean if the rupee goes to 70-72-73, then we will be in a better position to achieve it lets say and may even exceed it. The other part other than currency is of course the situation on the raw material prices and the raw material prices we think are at a peak level now because when you look at crude last year to now, right now crude is almost around 80 and we are expecting that further rises from 80 will be very marginal. What is interesting for us is the fact that with 65% of our turnover now in fabric and garment, we find that only about 20% of that is raw material cost, of this valueadded turnover. So even if there is an increase in raw material, the impact is not that heavy on 65% of the turnover. On 35% of the turnover, it is more significant.
- V P Rajesh:** By the way your garment and fabric has shown in the presentation is more like 77.56%. So you are backing out some 10% out of it, is it? That is the way to think about it?
- Ravindra Toshniwal:** Fabric and garment is 65% of the turnover. We had communicated always there it is 65.
- J. K. Jain:** Basically, probably you have looked at the data which is for the quarter only. Q4 if you look at 48% is the fabric and 20%. That way it can be 68% but overall for the full year when we look at, 45% fabric and 20% garment it comes to 65%.
- V P Rajesh:** But never had we said 75?
- Ravindra Toshniwal:** Next year it will be closer to 70 overall.
- V P Rajesh:** No, I was just looking at your slide 10 of the debt and that's where I was coming from. But perhaps there is some percentage calculation that needs to be.
- Ravindra Toshniwal:** Broadly speaking, we are increasing every year the sales of fabric and garment compared to our yarn. And our yarn is always going down as a percentage of our total turnover. In that scenario we do stand to have less volatility due to raw material price increase impact. So I would say that we have a very good chance for at least achieving these numbers other than the fact that there could be labor unrest which again we had a bad period last year and usually our cycle has been that we have an unrest every 20 years or so. Last problem we had was 20 years ago and now we faced an issue which was around for about 7 or 8 days which created an impact of shortages for about a month.
- V P Rajesh:** And what was the impact incase if you want to quantify the unrest in your EBITDA line in absolute?



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- Ravindra Toshniwal:** At least a 6, 7 crores impact and then there could be some other consequential impact. So we are looking at about roughly 10 crore overall impact of that labor part and if you look at our increases, the main increase in cost has been wages by 17 crores over last year. So that wages by 17 crores, there is a 10 crore impact of a strike in it. So we should have some cushion.
- V P Rajesh:** And then about your strategic partnership with the European and Japanese companies, could you explain at what percentage of your revenue was from these two strategic partnerships?
- Ravindra Toshniwal:** Still very small. I think that the overall Japanese part has been around 40 crores and from the European companies would be around 20. So still 60 crores only 5% of the topline.
- V P Rajesh:** And where do you see that going this year from 60 crores?
- Ravindra Toshniwal:** So we see that improving, I think we could be hitting, the European partnership should double at least and the Japanese one will increase to around 50. So maybe it will come to 50 plus another 40, around 90 crores.
- V P Rajesh:** How is the demand in the domestic market?
- Ravindra Toshniwal:** Domestic market demand is actually weak compared to the export market demand right now. Export is doing better for us. So we hope that this ratio of export to import in our total turnover shifts more towards the exports now.
- Moderator:** Thank you. The next question is from the line of Priyank Boricha from B&K Securities. Please go ahead.
- Priyank Boricha:** I would like to know, can you share me some details about the quarterly yarn pricing in the last 6 months and what do you see it going forward?
- Ravindra Toshniwal:** We are not really into the cotton yarn business in a big way. In fact we buy cotton yarn only for yarn dyed cotton business. So for us that cotton yarn business is a very small portion of our business, maybe only 1% of the turnover. Generally looking at cotton yarn being slightly bullish but it's not the significant part of our business, so I don't want to comment, I don't know too much about the cotton yarn price.
- Moderator:** Thank you. The next question is from the line of Abhishek Shah from Valcore Capital. Please go ahead.
- Abhishek Shah:** Sir my question was bit of a broad one. I wanted to understand sir with these cost hikes, specifically internal ones due to employee cost and fuel charges, how are we competitive compared to other countries or even our local competitors as such in terms of bidding for...?



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- Ravindra Toshniwal:** So when we are talking about our competitive advantage, it has always been more in fashion. And it has always been more in products that are little bit more European than being Chinese. So we are not competing firstly with the Chinese head-on. Otherwise, our cost structure would be too expensive for all customers. India, in general has not been very competitive in synthetic manmade industry or the poly wool business compared to what the infrastructure in China was. Now if we are looking at the scenario for us, we have made this joint venture agreement, in the past we also had one and we also have a design studio in Europe. The idea has been to get Turkish and European feel on our design and range and be able to offer prices and delivery within Asia, Bangladesh, Sri Lanka, Vietnam, India as the garment hub in the East that can produce European style goods from this region and that is why we have been able to pass on profits even to the extent of such large increases that if you look at our EBITDA margin from 16-17 to 17-18, we have only a 10 crore drop in the EBITDA margin and after the impact of the strike as well as the impact of the power cost increase of 20 crores, so we had cost increases of around 40 crores and we were able to get back 30 crores from the customer. So really speaking, our advantage lies in the fact that we have more differentiated innovative products. However, that cannot allow us not to control cost. We have now to find ways where in certain parts of our business, which are more commodity, those parts have to be outsourced and those costs have to be reduced in the mill. We have made a cost reduction plan. This cost reduction plan will also further attempt to reduce about Rs. 15 – 20 crore of cost over the next year.
- Abhishek Shah:** Another question is, you mentioned that we generally do repricing with the customer every 6 months?
- Ravindra Toshniwal:** Correct.
- Abhishek Shah:** Are we considering to even reduce the gap may be from 6 months to 3 months, you know just so that pass through because much more easier as such.
- Ravindra Toshniwal:** There is a challenge with that because of the seasonality of the product and for them to have a similar price for the summer range and the winter range. If they cannot change the retail prices in the stores once the range has been introduced and this has been the challenge in getting to a period less than 6 months. However, we have advised them that we will be forced to do this particularly for the wool range article and in that, I think we will succeed, but that is again, you know, not that larger part of our turnover that may be about less than 10%. In that, we will be able to do it every 3 months. In most others, it still remains 6 months.
- Abhishek Shah:** So the one-off that we have had is only 10 crores of the strike rate.
- Ravindra Toshniwal:** One-off is 10 crores of the strike and given is the 20 crores of the power, which will remain constant and is not expected to increase in the next year.



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- Abhishek Shah:** If coal prices are expected to stay at these levels.
- Ravindra Toshniwal:** Correct. That dependency is really on the oil price.
- Abhishek Shah:** Sir, so may be let us compare say from the March end quarter to may be where we are right now, so what has been the cost hikes at our end?
- J. K. Jain:** Polyester fibre has gone costlier by about 20%. For the March means, he is talking probably about the Q4 '18 to the current financial year. Are you talking about that?
- Abhishek Shah:** Right.
- J. K. Jain:** During this period, polyester has increased by Rs. 3.5. It is about 3% increase. So polyester has further gone costlier. But now that the oil has gone down, and it will come down again. So, it is likely that the prices are at the peak and now there is a good possibility of reducing the prices.
- Abhishek Shah:** Understood. Sir, at the employee cost price hike all taken as such, we are through with that?
- Ravindra Toshniwal:** Yes, that is done.
- Moderator:** Thank you. The next question is from the line of Shivam Vashi from Alpha Alternatives. Please go ahead.
- Shivam Vashi:** Sir, I just wanted to understand on this better thing that you said. It is 131 crore because of the gratuity that you have expensed, which is the liability going ahead. It is not right now. So, that is being considered as income, am I understanding right?
- J. K. Jain:** Yes, basically see there are 2 changes happened due to IndAS provisions, in fact these are just presentation differences. Overall impact, it will look at the overall gratuity liability consist of 2 parts. One is the gratuity liability which is up to 31st March 2018, for the employees who are working in the company and one portion also includes because of the increase in the salary of the employee, which will happen in the subsequent years of the service. So liability is also calculated on the increased salary. So, based on that in the earlier IndAS, before the IndAS, all these were being taken as the net. Net cost was taken into the employee cost. Now, we have taken gross value of the provision for gratuity in the expense part and the future part has been taken as income reflected as the other comprehensive income. This is a technical presentation.
- Shivam Vashi:** Okay sir, and on the fabric business, so for the year where does **our** approximate fabric realization stands as against last year?



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- Ravindra Toshniwal:** So, if you look at the fabric turnover, our fabric turnover this year has increased from last year by about 16% and even the garment turnover has increased by 9%.
- Shivam Vashi:** This is in terms of volume turnover or in value?
- Ravindra Toshniwal:** This is in terms of value. So, we expect this increase of further 10% at least this year in the fabric turnover and further increase of may be another 20% in the garment. So, when you look at FY18-19 now, in FY18-19 we think we will be almost around about 70% of our business between fabric and garment out of the total 1,400 crore turnover.
- Shivam Vashi:** Any number that you can give where the realization stands for the fabric?
- Ravindra Toshniwal:** It is difficult still for us at quantify realization segment wise, but we can say that definitely the fabric realizations have been much better than yarn and right now garment realizations are improving and we are hoping that there may be some drawback benefit that the government gives. The entire garment industry has suffered on account of the drawback in a huge way. In fact if we look at our drawback loss itself of last year versus this year, we have lost roughly on 600 crores, about 5%. So, there has been a further loss of around 30 crores in drawback itself after the introduction of the GST. Even part of that we have managed to pass on to the customers. Now, that is already passed on, we don't have that challenge anymore, but we may get back something from the government as the industry is suffering hugely and the government has promised some relief.
- Shivam Vashi:** Right. Also just to understand more on fabrics, the fabric sales value realization is better than last year overall?
- Ravindra Toshniwal:** Yes, realization is better than last year.
- Shivam Vashi:** Just wanted to understand this thing so what I understand from your commentary is that there is turnover increase in fabric, in garment everywhere, so what I understood the demand is there, but yet we are struggling to pass on. So this is something, you know, contradicts.
- Ravindra Toshniwal:** Yes, I mean, see turnover is increasing in our fabric and garment business. In yarn, it is remaining down and in fact was negative for the last quarter and overall in the financial year, it has been minus 12%. In the increase of cost, we have been able to pass on substantial amount of it, but these one-time increases like the labor cost, labor strike and the drawback as well as what happened in terms of the power cost, all of these increases together in 1 year has been exceptional year that you have an exceptional time where you get a drawback hit plus you get the raw material price hit plus you get a power price increase hit and all of those, we have not been able to pass on together. Every 6 months, we go and we try to get price increase and we get some. For this year, if the increases are not going to happen again, we do not have a



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drawback loss, we do not have loss due to power more or we do not have any other exceptional losses for strike or other reasons, we should be able to recover back EBITDA margin and there is a cost reduction involves, which will help us.

Moderator: Thank you. The next question is from the line of V. P. Rajesh from Banyan Capital. Please go ahead.

V. P. Rajesh: Yes, just a few follow-up questions. You know, after GST coming in, are you seeing the market moving towards more organization, is that benefiting us in anyways?

Ravindra Toshniwal: Yes, definitely we are seeing much more organization in the market and the brands are coming more and more to us. The challenge has been in this transition that they took into GST, the brands have had more cash flow problem. So, all the domestic brands have been asking for more credit and that has been the big challenge for GST. Business is always there. That is why we have not worried about topline increase. The problem is the credit that they are asking for and our own availability of bank finance has become less which we wanted anyway to borrow less because we did not want to use so many funds, but you know, the challenges been about cash flow management of the brand with GST more than the fact that business is getting organized. It is getting organized.

V. P. Rajesh: I see and then secondly with the banks, are you finding difficulty to get your lines renewed or get increase lines because we heard from other companies that they are facing challenges specifically with the PSUs.

J. K. Jain: No, not that. We have all 4 public sector banks and in fact in last couple of years, we have not requested the banks for any announcement in the working capital limits rather we have asked them to reduce our limits and we are comfortable that way. So, banking that way and getting the funds from them is just not a question for us.

Ravindra Toshniwal: Yes, we did not expand and we are not really looking to enhance our limits. We are looking more turnover with what we have.

V. P. Rajesh: What is your current capacity utilization in your factory?

Ravindra Toshniwal: We have enough scope to be able to increase to this 1,400 crores without any investment and possibly we will get through another year without any significant investment required because outsourcing is a huge possibility now. There are many sources of outsourcing available. All we need to run is the value add portion.

V. P. Rajesh: Right, but even in that sense, are you more at 70% or 90%?



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- Ravindra Toshniwal:** We are in different segments at different levels like say for example the garment industry will be closer to 70% in certain seasons and in the yarn business, we are more than 95 or 90% plus in the yarn business and in the fabric business, we will be in the 80%.
- V. P. Rajesh:** So, I don't understand if you are at 90% capacity in your yarn business, then how can you reduce in that business when down 12% last year?
- Ravindra Toshniwal:** Because we are consuming more fabric and we are not selling yarn as yarn. I just give you the data for the production. In terms of yarn, we are down by 2% only in spite of the labor strike. The overall per kg yarn production is down by 2% and that has been consumed for our own fabric that is why the turnover of the yarn is down by 12%.
- V. P. Rajesh:** I see, okay. When you say turnover of the yarn is down 12%, you mean the external sales of yarn.
- Ravindra Toshniwal:** External sales of yarn, yes. We are consuming more and more of our yarn to go all the way up to fabric.
- V. P. Rajesh:** Understood and just looking at your raw material cost like, you know it is 622 crores and you know, your expectation is that the crude has peaked but let us say if the crude were to average and I know this is going to be a little hypothetical, let's say the crude average is \$80 for the current financial year, what does it do to your raw material line item of this 622 crores?
- Ravindra Toshniwal:** I think then everything remains more or less stable because right now the prices are more or less fixed at around \$80.
- V. P. Rajesh:** Okay. So you are saying what is you could be 1400 of sales and 622 crores of raw materials and probably your employee expense will not go down from 235. Right, I mean, is that they way to keep them?
- J. K. Jain:** No, that is not correct because you are taking the turnover increase by 10% and you are not increasing the raw material in proportion. To the percentage of the production value will remain same, not in absolute terms. If my turnover increased by 150 crores, then expense remains the same, then my profitability would be huge.
- V. P. Rajesh:** Sure, understood. But you are saying basically that this raw material line items is like sort of the implied percentage of \$80 crude, right that is the point.
- Ravindra Toshniwal:** We are assuming that today if it remains at \$80, if it goes above \$80, let say it become \$100, then we will have increase in cost, which will still take time to pass on.
- V. P. Rajesh:** Right, okay.



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- J. K. Jain:** In this case, what happens is there are other things which compete directly with the synthetic yarn business and synthetic fabric. Then other fabric, which will directly compete that is again a question.
- V. P. Rajesh:** What are those fabrics?
- Ravindra Toshniwal:** Cotton. Generally, when the crude prices go up, then the cotton industry does better, synthetic industry.
- Moderator:** Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Toshniwal for his closing comments.
- Ravindra Toshniwal:** Thank you everyone for attending this conference and being with us. We value your questions and your inputs. It has been a challenging year, but we have, I guess, done as best as we could in terms of managing a situation, which is difficult. It gives us a lot of optimism and confidence that going through this very bad year, we have still managed to achieve a profitability and we have been able to at least not reduce the EBITDA margin by more than 1.5%. We hope now to come back to the FY16-17 performance in the next year and then continue with our objective of increasing EBITDA margin slowly and gradually back to the 14-15% levels over the next few years. Thank you very much everyone.
- Moderator:** Thank you very much members of the management. Ladies and gentlemen, on behalf of Banswara Syntex Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.