

BSL/SEC/16

29th September, 2017

BSE Limited
Corporate Relationship Department,
1st Floor, New Trading Ring,
P.J. Tower, Dalal Street,
Fort, Mumbai-400001

National Stock Exchange of India Limited
Exchange Plaza, 5th Floor,
Plot No. C/1, G Block,
Bandra Kurla Complex,
Bandra (East), Mumbai-400051

Security Code: 503722

Security ID: BANSWRAS

Dear Sir,

Subject: Transcript of Q1 FY18 Earnings Conference Call held on 11th September, 2017.

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, Kindly find enclosed a transcript of the Q1 & FY17 Earnings Conference Call held on Monday, the 11th September, 2017. The same is also available on the website of the Company i.e. www.banswarasyntex.com.

Please take the same on record.

Thanking You,

Yours Faithfully
For **BANSWARA SYNTEX LIMITED**

(H P KHARWAL)
COMPANY SECRETARY

Encl.: as above

BANSWARA SYNTEX LIMITED
CORPORATE OFFICE
5th Floor, Gopal Bhawan, 199, Princess Street, Mumbai - 400 002
Tel : +91 22 66336571-76 | Fax : +91 22 2206 4406
Email : info@banswarafabrics.com

REGISTERED OFFICE & MILLS
Industrial Area, Dahod Road, Banswara - 327 001 (Rajasthan)
Tel: +91 2962 240690 - 93, 257876 - 01
Email : info@banswarafabrics.com

An IS / ISO 9001:2008 Company | CIN : 124302RJ1976PLC001604 | www.banswarasyntex.com



**“Banswara Syntex Limited Q1 FY18 Earnings
Conference Call”**

September 11, 2017



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Moderator:

Ladies and gentlemen, good day and welcome to Banswara Syntex Limited Q1 FY18 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. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal for 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. Ravi, Toshniwal – Managing Director. Thank you and over to you sir.

Ravi Toshniwal:

Thank you. Good afternoon ladies and gentlemen. Sorry to have postponed this to the afternoon instead of the morning. A very warm welcome to you all on the Q1 FY18 Earnings for Banswara Syntex Limited. Along with me, I have Mr. J.K. Jain – our CFO and SGA, our Investor Relations advisors.

So let me take you through the performance for this first Q1. We have had a very difficult start to the year and we continued to be beleaguered with the challenges that are being faced by many industries in India which is the demonetization and then the GST and the impact of both of these have been negative on our industry to some extent. And there have been several protests as you all would be aware especially by the textile industry. In this Q1, our garment division was particularly hit hard because our customers did not take deliveries. They did not know how to markup the price and the price changes on the labels and all those concerns led to a huge inventory buildup over about Rs. 12 crores in this Q1 in garment alone. So as you will see from the numbers, the revenue mix shows a substantially lower contribution from the garments division. This, however, is an anomaly due to GST and should now ease out and we are seeing already a lot of the lifting happening in Q2. Having said this, we have migrated from the erstwhile indirect tax structure to the GST regime and we firmly believe that these initial setbacks are just initial setbacks and the final vision for a composite mill with a structure like ours is that GST would be favorable in the long run.

Now as we discussed last quarter, in the labor absenteeism was prevalent still in Q1. It is in Q2 that we have overcome this challenge but not in Q1, so the results do reflect a lot of the extra cost for putting overtime of workers within Q1. Coming to the raw materials part, there was increase in prices of all three of our major raw materials; polyester, viscose and wool;



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polyester by 2%, viscose by 10% and wool by 25% respectively. We were also adversely affected by increase in the power and fuel cost and this is due to the underlying increase in the prices of pet coke and imported coal which increased by about 38% and 29% as compared to the corresponding quarter last year. Preceding quarter, the prices of pet coke and imported coal increased by 12% and 20% respectively. JK will further elaborate on this later. I would like to reiterate that we are focused on increasing our revenue contribution from higher value-added products which we have always said across all three business verticals that is the yarn, fabric and garment business. And to achieve this, we are focused on integrating our business verticals more efficiently. We are now looking at processes that are more horizontal rather than vertical to improve the supply chain partnerships between our yarn, fabric and garment business. We hope that this focus on the fast fashion business that we have been talking about will lead to a significant contribution in terms of the value that we are able to deliver and get from customers.

To give you a brief update on our strategic partnerships, we did strategic partnership with Takisada and that is rolling out very well. We continue to meet them on a regular basis and we are looking at further expansion within South Korea. Our marketing agreement with the European company which we are unable to name right now has kicked in as a marketing arrangement and we continue to work with them towards a possible JV in the September of 2018. Our partnerships are essential for expanding our reach to the global markets, they are also a source of valuable insight to fashion trends and customer expectations and being in the forefront of both fashion trend as well as managing our supply chain for fast fashion continues to be the focus to drive value in our business going forward.

And lastly, I would like to state that we are committed to this vision for growth and we are making our best efforts in spite of a very bad quarter and we believe that the long-term things would shape up. Thank you very much and I would like to hand over line now to Mr. J.K. Jain for his update on the financial performance. Thank you.

J. K. Jain:

Thank you, Mr. Toshniwal. Good afternoon everyone. The quarterly results for the Q1 are already with you. I will just take you through the financial performance of the company quickly. Revenue for the Q1 FY17-18 at 306 crores against 297 crores in the Q1 FY17. Segment wise if you look at, the yarn contributed 38% of the topline, fabric contributed 48% and garment contributed 13%. The EBITDA for the Q1 FY18 stood at 25 crores. EBITDA margin was 8.3% for the Q1 FY17-18. The fall in margins was attributed to increase in employee cost by 10% from the corresponding quarter last year due to increase in index based wages increase, higher payments for overtime payments to the existing labor due to their continued absenteeism. The fuel cost as explained by Mr. Toshniwal also has increased by about 38% from the corresponding quarter last year, it is primarily due to increase in prices of pet coke and imported coal. During the quarter, all the three raw materials, polyester, viscose and wool increased substantially. The polyester went up by 2%, viscose by 10% and wool by



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about 25%. The total comprehensive income was 89 lakhs for the Q1. There is no major CAPEX plan in the next few years and our debt repayment is on time. Now, we open the call for questions please.

Moderator: Thank you, sir. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from Pratik Barasia, an Individual Investor. Please go ahead.

Pratik Barasia: I wanted to know I think in one of the last concalls you had mentioned that maybe approximately 30 crores of maintenance CAPEX every year. So I was wondering what is the CAPEX used for and isn't that level a little too high?

Ravi Toshniwal: Hi Pratik, thanks for your question. The maintenance CAPEX of 30 crores is not purely maintenance, but also some small modernization of equipments wherein older machinery is removed and new machines are put in and this is across four different areas in spinning, in weaving, in the finishing and in the garment business. So really across all four divisions and this is not that large in investments because ip a plant that is now reaching an age of around 40 years we need to be upgrading and removing certain machineries and putting in new machineries in a periodic basis. So this is a plan which is well thought out and I think about 30 crores is on an average not a bad amount

Pratik Barasia: This would be for the long term, 30 crores going forward for the long term?

Ravi Toshniwal: Yes, 30 crores going forward for the long term would be something that keep us at least modern and maintained well.

Pratik Barasia: And what is the interest rate that we have for the long-term debt?

J. K. Jain: The average rate of interest on the long-term debt after the fall in the overall lending rate as well as rebate on certain loans is around 8.5%.

Pratik Barasia: So there is no TUF scheme which is applicable to us?

J. K. Jain: Yes, there are certain loans which are under TUF. Basically, in last 2-3 years the TUF scheme is not available and not giving us the interest rebate. We get only the capital subsidy and that is one time. The earlier loans where we had TUF rebate are now being repaid and as we always explain that the repayment during previous last 3-4 years is substantial. We are repaying about (+65) crores as repayment on our loans. So the TUF loans are getting repaid and the new loans which we are taking are eligible only for the capital subsidy. So therefore this rate of interest is slightly increased. On the other side because of the improvement in the credit rating, the rate of interest is reduced by about 1% and another 1% it has fallen because of reduction in the bank rates and that is contributed by the RBI reduction in the rate of interest.



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- Pratik Barasia:** So you are saying for the quarter it was an average 8.5%?
- J. K. Jain:** Yes, for the term loans.
- Pratik Barasia:** But I think for the last year was it around at 11%, my calculation gave me 11%. Am I wrong in that?
- J. K. Jain:** No. It was not 11%. It was somewhere around 9.75 roughly.
- Pratik Barasia:** And we are paying 65 crores every year?
- J. K. Jain:** Yes.
- Pratik Barasia:** Okay. And for the overtime, I think there was a lot of expense because of overtime. In the future what are we going to continue with overtime or is it going to be like a fail-safe, how are we going to handle that?
- Ravi Toshniwal:** So Pratik, the overtime part is only a problem from the period which starts from March onwards. April, May, June, the first quarter is the worst and it remains a little bit in July, after that there is no problem and it continues throughout the year because these are the periods when NREGA kicks in and these are the periods when people go on holiday. So this is only during that period that this cost is going to always be a challenge.
- Pratik Barasia:** Okay, sir it is always going to be there every year?
- Ravi Toshniwal:** Every year during this quarter, particularly in this quarter it was worse, because along with NREGA the government also announced a housing scheme in which they were giving loans in the Awas Yojana. In that Awas Yojana, loan of around Rs. 2.5 lakhs was extended; out of our 9,000 workers, 6,000 of them availed it. Though there was this special further problem in this year but the 6,000 workers who have availed it now cannot avail it again next year. Under that housing scheme, they are allowed to take that Rs. 2.5 lakh, build a house of their own and even contribute two months of labor in it. And they get paid for it by the government.
- Pratik Barasia:** So it should not be that much of a problem going forward?
- Ravi Toshniwal:** Going forward since the 6,000 have already taken it, the balance 3,000 may choose to take it next year.
- Pratik Barasia:** But every year this quarter, because they land up going back for holidays...
- Ravi Toshniwal:** Yes, NREGA in this part and absenteeism is a seasonal problem.



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- Moderator:** Thank you. The next question is from Abhishek Shah from Valcore Capital. Please go ahead.
- Abhishek Shah:** Sir my first question is what sort of pass through agreements do we have with our clients, since over the past few quarters we have been having issues with high oil prices, higher power consumable prices cost or even employee cost. I mean, even if one of this variables move up, it ends up subtracting the margins straight away. So just want to understand more on that understanding with the clients?
- Ravi Toshniwal:** In the last 6 months, it has been a major challenge for our marketing team to try and get the customers to understand that we need a price hike of about 10% across the board. And we have been able to convince a lot of the customers and get in some cases up to 5% or in some cases 7 or 8%, very few cases even 10%. But across the board for all customers it hasn't happened yet. Our thought process was that we need to go in for a one time increase and reset the prices to a point where we would not have to go back again and again for price rises due to small reasons. The story for that has been built up based on the product differentiation and on the cost increases that are happening since the government has done away, after the GST, with the drawback structure as existed before. So in a general way about 3% loss in yarn export, 5% in fabric and maybe 7% or 8% in garment on drawbacks will happen across the entire textile industry. This is a very challenging time for exporters in this respect and obviously the 5% rupee appreciation adds to this challenge, correct? I mean, see the raw material fluctuations and others are not a serious consequence in that part because of the value addition we have the increase in the raw material prices do not impact the final product so much as these things have.
- Abhishek Shah:** So again obviously these fluctuations have definitely been visible in the hit on the margins by that?
- Ravi Toshniwal:** Correct. So we had a compounded problem of the exchange rate, drawback loss, which will continue to impact us even in Q2. The drawback loss in fact hits from July 1st. Q1, there was no drawback loss.
- Abhishek Shah:** So what will be the blended impact then in that case, for the drawback loss, it is a...
- Ravi Toshniwal:** Drawback loss like I said to you in the yarn is about 3% and in fabric it is 5%. And in garment, it is about 7%. And how much of it we have been able to recover across, we will be tabulating once we get the Q2 results but this whole recovery of whole of the entire 10%-12% impact of these two things alone currency plus drawbacks and a reset on the pricing will mean gradually, we are moving to 10% straight away and across the Board, I think implement 10% will happen in by about October end.



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Abhishek Shah: Now, so you are saying 10% immediately has been the impact on the cost front but on the realization part...

Ravi Toshniwal: See, even on the cost front not everything has been impacted by 10%. So these are depending on the product and depending on each situation. In some cases we have an impact which is only 3%-4% overall impact. I have here counted the loss in drawback and the loss in the price due to exchange rate, but what I haven't told you is that I have gained something because of GST and the input criteria. So I have gained on the input front by getting all my duties upfront on GST before I export. So there is a setback which I get back of around 5% there. If I get a 10% increase across the Board by October end, I would have covered about 15% overall.

Abhishek Shah: So let me ask you differently. So then, what sort of margins are you looking at? So maybe, let us say, let us forget this quarter as well, so maybe you know post...

Ravi Toshniwal: Q2 is also going to be bad. We cannot expect Q2 to be remarkable. But what we are going to, like I have said many times in most of the calls that we have had, I repeat that again. The objective is to get back to an EBITDA margin of 15% plus.

Abhishek Shah: I understand sir, but we have been talking about this for a while, right? I understand...

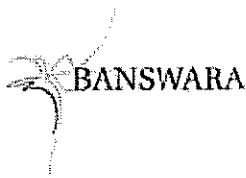
Ravi Toshniwal: The situation is that we have been hit with headwinds one after the other which have come from a series of measures taken by the government which is demonetization which is this whole process of GST implementation and the fact that the rupee has appreciated with something which is abnormal in our last 20 years.

Abhishek Shah: Got it, certainly. But sir then like say what my understanding was every 6 months the pricing sort of reset at the customer level, so when does that...?

Ravi Toshniwal: That is what I am saying to you that by October end we should be able to do it.

Abhishek Shah: Okay, got it. And the customers are open to taking such...

Ravi Toshniwal: Yes. Now, here is where is the interesting part and why we still feel confident that we will get pricing. The story that we have been able to convince customers about is that we are not making products that are commodities. We are making products that are replacing European products and the cost that they would have to buy these from Europe is still way higher than what we have and when we have pressed for this they have said to us only one thing, can we not find these goods in China and we said you will not. And many of them have tried and come back to us and paid us what we asked for. So we feel confident that the product development that we have and the differentiation in product we have which continues to be strengthened with our association with our European design team and whatever work we have done will



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allow us to get the price increase and we will be back to where we were, compared to mills that are doing commodities that can be made by China. So I am saying that differentiation will pay more in the future and the future of the textile industry in India will lie with a more differentiated product and not with commodities.

Abhishek Shah: Got it. Fair enough and sir would you be able to split the margins like, I understand say if we don't look at this quarter or maybe the coming quarter, but on a normalized basis, can you split the margin between fabric, yarn and garmenting. I mean, you did mention that once the ERP system in place will be able to...

Ravi Toshniwal: Yes. I still don't have a good handle on this. May be J. K. can say something.

J. K. Jain: Very specifically if we look at the data for the current quarter and as we have explained during the call itself that the spinning business was impacted because of the labor absentees, as it is the EBITDA margin in this spinning is least and further more it was impacted adversely by the labor absentees.

Abhishek Shah: Sir, then again on the cash flow front, you did mention that we are looking at repayment of 60 crores? This is the net amount, is it? I mean, because we are looking at CAPEX of, I think maintenance CAPEX of about 30 odd crores and then we were also looking at adding some capacity on the garmenting side, which was about 20-25 odd crores, if I am not wrong. So net repayment, effectively if I just try to recalculate we are looking at cash flow from operation of 120 odd crores, 55-60 crores going towards CAPEX in total and then net repayment is 60, I mean I am just a little confused with this one.

Ravi Toshniwal: So the CAPEX is less.

J.K. Jain: 65 crores is like gross repayment. That is the absolute value that I repay and we are borrowing about 25 crores out of the total CAPEX of (+30) crores.

Ravi Toshniwal: Yes. So our part to it is only 5 crores that will go, the rest will be fresh loans.

Abhishek Shah: Okay. So the net debt repayment or net reduction will be about 35 odd crores every year?

Ravi Toshniwal: Correct.

J. K. Jain: 35-40 crores.

Abhishek Shah: And sir, garmenting this sort of CAPEX will continue every year, for some time at least since we are growing and we are adding new customers as such.



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Ravi Toshniwal:

It is not really for adding new customers also. We have done the analysis now and we are going across the supply chain aspect more horizontally rather than vertically because we used to look at our business like spinning, weaving and finishing and garments and now we tend to look at the business as a whole supply chain all the way from yarn to garment and we are looking at it more horizontally rather than only vertically. And we are trying to find ways to reduce the whole lead time and get into this fast fashion so we can have more turns. The garment division really absorbs the maximum amount of working capital especially because we are selling a large portion of our garment capacity in the domestic market which also takes credit of 90-120 days from the time the garment goes to them. Then the whole cycle time is all the way from fiber up to collecting payment for the final garment gives us only two cycles in a year which is ridiculously low. So what we are trying to do is crunch this and make 3 cycles in a year at least for the garment business and do the fabric cycle within 45 days to 60 days instead of 60 to 90 and therefore have maybe 6 cycles of fabric in a year. And this whole yarn business will be supporting these two businesses. So that we can both grow the fabric and the garment business together with the yarn business and the stock of the yarn helps this, whole cycle time reduction. Really the key for us as we see it, it is not so much about capacity utilization as that is not the only way to make money. When you talk differentiation, the speed of how you work is what creates more value. This is the process that we are going through but unfortunately, we have been hit by headwinds.

Abhishek Shah:

So sir from Q3 we would be comfortable?

J. K. Jain:

I was just explaining that the EBITDA margin segment; the EBITDA for the yarn business was impacted severely because of the labor absentees and it was also impacted in garments because we accumulated stocks due to GST implementation and customers and brands were just not willing to take the delivery before the implementation of GST. We accumulated 12 crores plus inventory in garment, the profitability which would be realized to the company for the Q1 was just held up because of the stocks. In fact these goods were delivered in Q2, this was a temporary held up, but in Q1 where it was not delivered the EBITDA margin for the garment business also went down. So both these businesses, spinning and readymade garments were the main reasons for substantial decline in the EBITDA margin.

Abhishek Shah:

Right. So sir what I was trying to understand was when we were talking about 15% EBITDA margin for the entire business, I mean if you can just give us a ballpark number?

Ravi Toshniwal:

So I would say in that case we are looking at about between 20%-21% in garment, between 15%-17%-18% in fabric and the yarn part will be anywhere between 10% to 13% which has about 30%-40% of our turnover.

Abhishek Shah:

And where are we at in each of these?



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- Ravi Toshniwal:** So this is what we don't know well. This is what we don't understand so well right now in terms of the actual numbers.
- Abhishek Shah:** Okay. Fair enough and this is just a long shot, say let us say we generate good cash flows over the next coming years, are we actually looking at building our own brands, also premiumization on that side?
- Ravi Toshniwal:** The building of a brand can happen at the level of fabric brand building which we are doing at a B2B level. So first of all we are rebranding ourselves at a B2B level. We have identified the top 15 customers we have and found that 30% of our volume gives us 50% of our turnover with 5% of our customers which is not that unusual. Many companies have such a situation, but we can mind these 5% customers to get much more business, but because we grew in a different way historically, we haven't been able to do that horizontal supply chain mining. We had divisional mentality and each division had its own head and was responsible for its own thing, we need more cross functional team work to make the flow happen faster. This reorganization is what is happening. That will deliver the value going forward because clearly you know that fast fashion industry, the only secret for Zara, the only secret for UNIQLO and others is that they have 8 to 9 turns in a year of all stock and that is why they are the most profitable garment businesses and brand businesses in the world. So we are following that model.
- Abhishek Shah:** So no plans for B2C as such?
- Ravi Toshniwal:** B2C at this moment is limited for us, we sell to people who sell B2C, but we would still partner with the wholesaler and the guy who will be doing the final leg on his own.
- Moderator:** Thank you. The next question is from the line of Nishant Agrawal from Batlivala and Karani Securities. Please go ahead.
- Nishant Agrawal:** Sir my question is on the export demand, as the China export demand is currently coming down in last two years and you are in the exports, so I want to know that how is your export revenue from the yarn and how is the demand in that segment?
- Ravi Toshniwal:** Right. So for the last quarter I don't have the numbers, maybe JK has the numbers.
- J. K. Jain:** I have the numbers for the exports, for the Q1. During this Q1, we got about 46% of our business through exports and 53% from domestic market, out of this if we look at, overall export of 152 crores, yarn contributed about 35 crores, cloth business contributed about 82 crores and garment contributed about 19 crores.



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Ravi Toshniwal: Yes. But in a general way, I think from April-June 2016 to the April-June 2017 quarter, there was some drop in the export sales compared to domestic. That is around 2%.

Nishant Agrawal: Okay. But sir is China in future is interested to increase the demand because I am seeing that they are also increasing the spinning capacity also?

Ravi Toshniwal: See, China is going to increase supply and the demand increase is going to come from the rest of the world. We are in the position where a lot of the demand increase will be from many of our customers in Japan, Korea and the far east where we are seeing a lot of growth happening and reasonable growth still is happening for us in the US market. Europe is something we have not been able to penetrate well and where we had actual negative growth since we lost Caraman, but now with the partner in Europe coming up, we think that we can catch up. So really there is the macro position and there is a position which is specific to the kind of the product we make and the customers we have. Based on our analysis of the customer base we have and the potential we have in markets which are emerging for us which are Japan, Korea and the Far East market as well as Europe which needs to be restructured to emerge, we think that there will definitely be continued demand and increased demand for our product, demand is not the issue, the ability to supply it fast is the issue. The ability to service it with the lead time required is the issue.

Nishant Agrawal: But suppose cotton, yarn prices are coming down, so there is any diversion from your synthetic yarns and other yarns to cotton yarn because the cotton yarn prices are declining now in the last one quarter. So...

Ravi Toshniwal: What you are talking about is for the domestic market alone and in a sense of the global market when synthetics are synthetics and cottons are cottons and they are not really substituting each other. It is really if you are wearing a cotton trouser, you want to wear a cotton trouser, if you are wearing something which is polywool you want to wear polywool. It is not as if the price changes you change from a cotton trouser to a polywool trouser. You will wear the polywool for formal occasions, you will wear cotton chinos for comfort and a more casual look. So it is not decided by a substitution process really.

Nishant Agrawal: But in blended mix, it could be a change, that higher cotton mix and lower synthetic mix...

Ravi Toshniwal: As a matter of fact, the way the government has structured the GST, it is going to promote a wool rich blend, it used to be a blend of polyester wool it will become wool polyester because the duty on wool polyester yarn is cheaper. So it is very funny but the system and economics adjust to what is the taxation structure. And the blend can change to some extent based on the taxation structure. So yes, taxation structure of cotton rich with synthetics will happen. So if there was a blend of 65-35, it might change to a 52-48 cotton rich blend. That can happen in blended cotton textile. In polyviscose where both are synthetics, it doesn't really matter.



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Nishant Agrawal: But it would also impact your margins means if the cotton mix would be higher and the synthetic mix would be less?

Ravi Toshniwal: No, I don't agree with that. We are completely neutral to that impact. And there will be no impact on us due to a blend change and that competition is not what is worrying us or what would cause any change to our profitability or any impact. What is going to be the impact is only the supply chain of the entire industry which was after demonetization hit and then hit further after the GST, about 30% of the supply chain in India in the over-the-counter fabric business for example is disrupted yet and has not yet applied and does not even have GST numbers. Then the bottom end of the chain in the textile industry, there are still many participants who haven't yet come back into the process. So all this is taking more time and synthetics has a lopsided duty structure, with higher duty on yarn and less on fabrics. So the full absorption of the GST is not happening in the final fabrics sale. Those are issues that are needing sorting out. But in all those issues, composite mills of our type actually stand to gain as compared to the power loom and distributed small industries. When this consolidates and the dust settles, there is no negative impact here.

Nishant Agrawal: And sir how is the current spread in your yarn segment means if I compare it from the last year, then how is your current spread in your yarn segment per Kg?

Ravi Toshniwal: It has gone down. In the yarn business, yes definitely it has gone down. In the fabric business, it has improved.

Nishant Agrawal: The major impact was due to the increase in your raw material prices or?

Ravi Toshniwal: What has happened is that the demand for yarn has gone down overall.

Nishant Agrawal: So the prices has come down.

Ravi Toshniwal: Yes. But the demand for fabric of the specialized type we do still remains and the prices are still good. And garments also is the same story. The bigger challenge that in the commodity space of yarn where we were selling, so our strategy is to use more of our yarn, increase the fabric and garment business which was anyway our thinking even before GST happened.

Moderator: Thank you. The next question is from the line of Ritesh Bafna, an individual investor. Please go ahead.

Ritesh Bafna: Sir, I have a couple of questions. My first one is with regards to our European partner, can you just give us an update about the business with our European partner and is there any progress on that front?



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- Ravi Toshniwal:** Yes, we made a marketing arrangement right now and I am going to be Europe again in October. The indication we have from them is that they want to work towards a joint venture by September of 2018 and we are progressing well towards that in terms of all the broader understandings that we need to reach before we actually sign something. So it looks like a very promising venture which brings us back to the position we were in probably around 2009 when we did the joint venture with Carreman 10 years ago and at that point we then had real improvement in our bottom lines and improvement in our total product mix value-added goods. So what we expect this partnership to do is add to our value-added capability and our B2B branding.
- Ritesh Bafna:** And my other question is in relation to our Japanese and Korean markets as you had mentioned in the previous questions that they are your emerging markets. So how has been our performance in those markets and do we see any improvement there?
- Ravi Toshniwal:** Yes, we do see improvement there. Performance has been pretty satisfactory. We have been able to satisfy a very discerning market like the Japanese market and I think that the renewed interest from Japan and India is very encouraging at the whole macro level.
- Moderator:** Thank you. Next question is from Arjun Sengar from Reliance Mutual Fund. Please go ahead.
- Arjun Sengar:** Sir on your JV with the European partner that you are looking to sign, there seems to be a delay of about a year versus what you were expecting earlier. So what is the reason for that?
- Ravi Toshniwal:** So we chose not to make a joint venture before we do a marketing arrangement and begin working together. So I think slow and steady is better. We are doing a courtship before an engagement before a marriage.
- Arjun Sengar:** And secondly is sir you were talking earlier about the drawbacks which have reduced under the GST regime, but was not that drawback rate extended till September?
- Ravi Toshniwal:** That is only for garments that are exported where you can declare that all your inputs used were of non-CENVAT without any central taxes rebate taken by you. So that is a special circumstance.
- J. K. Jain:** I had explained this basically the government has allowed the earlier duty drawback rates until 30th of September 2017.
- Ravi Toshniwal:** And that has been extended I think to October now, J.K.
- J. K. Jain:** So earlier, it was up to 30th September and we were taking the non-CENVAT route for the garment business.



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- Ravi Toshniwal:** But in our case when we are producing yarn and making our fabric, all inputs as we use them are already under GST. So we cannot make that declaration on our garment exports if we use those as our inputs.
- Arjun Sengar:** Right. But in your fabric and yarn segments standalone basis, what is the net reduction in your duty drawback rates that you are expecting post all the Japan investments that you are going to get?
- Ravi Toshniwal:** The impact on fabric is clear. It is around between 2%-5% depending on the type of fabric net.
- Arjun Sengar:** Yarn?
- Ravi Toshniwal:** Yarn would be..what is it for yarn J. K.?
- J. K. Jain:** Yarn, it will be around 3%-3.5%.
- Arjun Sengar:** This you are saying is going to be an industry wide phenomenon or anything specific to you?
- Ravi Toshniwal:** No, it is industry wide. This is going to be a challenge and for all those who are holding fabric stock from pre GST time which was duty free and with non-CENVAT inputs, they can continue to export garments made out of that stock up to October. But any new stock that has come after the GST regime under the GST thing, that cannot be used to avail of the old drawback.
- Arjun Sengar:** You indicated that the demand is little sluggish in yarn. Is that because there is already a big supply glut of fabrics in the system. Is that the reason?
- Ravi Toshniwal:** What happens is that in the Indian domestic market, all of this stock that people hold in the supply chain, they were asked to declare it pre GST and this particularly like if you look at the pipeline, the distributors of the fabric and I am now speaking of the OTC chain in India which was our major consumers for the yarn. This is not the business we are in our fabric business because in the fabric business, there are two kinds of fabric sales. One is to over-the-counter, you buy fabric, you go and take the fabric and make a garment out of it, make the measure like to a tailor. That is the major segment of the fabric business in India even now. The other is when you go and buy the garment directly and our customers for the fabric is the garment maker and the brand, right. So in that OTC segment where you are buying fabric as the brand, in that segment all the distributors and everybody who held stock, typically most companies have 350-400 distributors, those distributors had to declare their stocks and when we took assessment of it and had to declare the stocks prior to GST, they all wanted to clean up that old stock before they buy new ones and that has caused an assessment of demand issue to be recalibrated for most of our customers of yarn. This has not happened among the brands in the



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business of garments. Garments is doing fine. It is the over-the-counter fabric business that is not doing fine.

Arjun Sengar: And sir about a year back when the government had come up with the special package for garment exports and obviously we were all very bullish about India's prospects. How do you see that changing after this whole drawback issue?

Ravi Toshniwal: It is going to be negatively impacted.

Arjun Sengar: That is the whole optimism that we had?

Ravi Toshniwal: Yes, it is going to be negatively impacted as a whole for the country and we have to see now how we will live up to this challenge. For us, it is a simple issue of offering from India value that does not compete with what is being offered with cheaper countries.

Arjun Sengar: What was that value you said the net impact on garment sir?

Ravi Toshniwal: Garments is going to be between 7% to 9% in many cases.

Arjun Sengar: This is the net impact?

Ravi Toshniwal: Yes, probably this is the drawback impact and then there will be some, I would say between 5% to 7% there will be a net impact to that extent in garments.

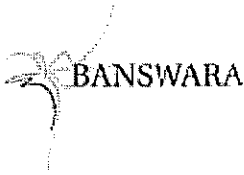
Arjun Sengar: And sir you have been talking about fast fashion as your aspirations as a company and you are obviously trying to tie up with the brands all over the world. How soon do you think this process, obviously this is going to be a journey.

Ravi Toshniwal: Yes, the journey has already begun for us.

Arjun Sengar: As in what is going to tip the scales in favor of faster progress in that direction?

Ravi Toshniwal: The moment we can achieve a lead time reduction and offer it to our customers consistently, the process will be accelerated. So the difficult point for us is to bring our lead time down from, right now our lead time average is between 60 days to 90 days for fabric. The garment lead time is okay, let us not get into that. That is the main denominator where the lead time crunch is the maximum is fabric. So if we can reduce that down to between 30 to 45 days, that is when the revolution will happen.

Arjun Sengar: And what has to be done to achieve that kind of a number?



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Ravi Toshniwal: So there are several things that need to happen in the supply chain to make that happen and we are learning those tricks of the trade from the Europeans. Part of the whole joint venture strategy is this.

Arjun Sengar: And let us say two years back where was this number?

Ravi Toshniwal: Two years back, we were 90 to even 120 days. Now, we are 60 to 90 and we can go down to 45 to 60 and then we are in the game, then at the last stage it will be 30 to 45.

Arjun Sengar: So this 40 to 60 as in when do you envision to....?

Ravi Toshniwal: I will just give you an idea of the fact that it is possible because I know of a company in China Luthai that made a deal with UNIQLO to deliver yarn dyed shirting to them from a new order in a new pattern which they stocked in the store. So as soon as they sell them from the store, they want the new shirts to start coming in. In 23 days they get the fabric ex-mill out and in 7 days the garment gets made and in 30 days the stock is replenished in the stores.

Arjun Sengar: Currently, are there any places in India who are into fast fashion manufacturing?

Ravi Toshniwal: I am sure there are some, but in small ways. All of the ones who are doing well would be in fast fashion.

Moderator: Next question is from Shivam Vashi from Alpha Alternatives. Please go ahead.

Shivam Vashi: During the start of the call, you have mentioned that you are looking for increasing integration between three segments for increasing revenue generation. So if you can just look at on this, how much is your yarn captive consumption at this junction and how much more you want to go ahead with?

Ravi Toshniwal: So in our yarn business, we produce 2400 tonnes of yarn per month and we consume around 800 to 900 in the fabric business. Balance of about 1600 tonnes or 1500 tonnes of yarn is sold as yarn within the export and the domestic market. So we are looking to use another 300 to 400 or 500 tonnes more eventually in the fabric business. And to look at going a little bit more specialized in yarn that is fine counts, we are looking at 250s instead of 240s and increasing the amount of fine count yarn we do because it is more value added so that overall production of yarn only would have dropped, so today on an average count of say 35.

Shivam Vashi: So what I am understanding is with increasing counts, your production seems to go down.

Ravi Toshniwal: Will drop. So it will allow more and more of our yarn to be used only for fabric and less and less of our business will be in the yarn business. That is the strategy.



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- Shivam Vashi:** And in fabric, are you using much of your fabric in your garmenting thing?
- Ravi Toshniwal:** In the garment business, we use about 80% of our fabric and 20% outsourced and some outsourcing will continue. So therefore the real thing is like if you can reduce the fabric lead time from 60 days to 30 days and get the garment made instead of 30 days in 20 days and reduce the credit term on the garment, then you are reducing the cycle time in garment to something which is completely different.
- Shivam Vashi:** So currently what I am understanding is about 90 to 120 days you said, right? That is the working capital, right?
- Ravi Toshniwal:** Yes, each segment has a different working capital requirement. The garment business is separate, fabric is separate etc. But overall when we look at this in a horizontal way, we can reduce. There is a lot of potential here. We look at ourselves having a lot of unfulfilled potential in many areas and we are trying to get that organized. It is not easy, but it can be done.
- Moderator:** Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Toshniwal for closing comments. Over to you.
- Ravi Toshniwal:** Thank you everyone for listening in and we hope to continue to update you with results from every quarter as well as when there is more news to share, we will come back to you for a special conference if required. We thank you for your patience and your understanding and look forward to continue to interact with you in the future. Thank you very much.
- Moderator:** Thank you very much members of the management.
- J. K. Jain:** Thank you very much.
- Moderator:** Ladies and gentlemen, on behalf of Banswara Syntex Limited that concludes this conference. Thank you all for joining us and you may now disconnect your lines.

