



“Banswara Syntex Limited Q2 FY2018
Earnings Conference Call”

December 13, 2017



MANAGEMENT:

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Moderator: Ladies and gentlemen, good day and welcome to the Banswara Syntex Limited Q2 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 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. Ravindra Toshniwal – Managing Director of Banswara Syntex Limited. Thank you and over to you Sir!

Ravindra Toshniwal: Thank you. Good morning ladies and gentlemen, good afternoon rather. Very warm welcome to our Q2 FY2018 earnings call for Banswara Syntex Limited. Along with me on this call I have Mr. J.K. Jain, our Chief Financial Officer and SGA, our Investor Relations Advisors. Let me take you through the performance for the year till date.

The first half of this financial year 2018 was very challenging for the entire textile industry particularly due to the lingering effects of demonetization and the GST implementation double whammy for us.

The increase in raw material prices due to the increase in the price of oil and the power cost increase has also impacted our margin. So there was a substantial decrease in the duty drawbacks due to the GST that impacted our profitability in the garment and the fabrics export segment and for some time we have now been negotiating with our customers for trying to get an increase and have been able to get some hikes from most of the customers for the current quarter. We believe the rest of the customers also will fall in line and we will get our increases by the end of this financial year.

The GST on the yarns was initially set by the government at a rate of 18% for synthetic yarn but post various representations from the industry particularly lobbies and Bhilwara and Bhiwandi the same was reduced to 12% in October 2017. The Surat lobby was also very instrumental in making this happen. In anticipation of this reduction from 18% to 12% the sales during the month of September 2017 was very poor and there has been an increase in inventory levels correspondingly. We were also adversely affected by the increase as I mentioned before in the power and fuel cost to the underlying increase in prices of pet coke and imported coal. So for the first half of the FY2018 in terms of the topline we have performed in line with the last year same period in spite of all of these headwinds, in terms of revenue that is far better than what we expected despite these headwinds.



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As mentioned earlier we are focused on creating a better revenue mix, our garment and fabric business has contributed to 63% of our half-yearly turnover compared to 57% in FY2017. In the future also we will focus on these two segments that is fabric and garment and will be using more and more of our yarn capacity for captive purposes or for fancy or value added yarn. This will help us to expand the margin significantly and elevate us to the fast fashion business.

I would like to reiterate that we at Banswara Syntex are focused on increasing our revenue contribution from higher value added product offerings across all three of our business verticals. To achieve this we are focusing on integrating our business verticals more efficiently. We continue to believe that India's garment and fabric industry has a potential to be a significant hub for supply to global fast fashion and we are confident that Banswara Syntex will contribute significantly to this story particularly in tailored clothing.

To give you a brief update on our strategic partnerships. We mentioned that there were two partnerships, which are the key for our future. One was the partnership with a Japanese company Takisada for the sale of fabrics and garments in Japan, South Korea and other Far East markets and the second was our agreement, which is now in work and we are working on a joint venture with the European company for women's wear to be sold to global fast fashion brands in Europe and the US with help of designed in Europe and made in India and delivered as fast fashion with prices better than Turkey. We would also be able to market these designs in Far East markets.

Our partnerships are essential for expanding our reach in the global markets. There also source of value insight in to the ever changing fashion trend and customer expectations in all geographies. This will continue to add value to our business going forward.

Lastly I would like to state that the industry is witnessing a tough period, but we are confident that in tough times we will do better and particularly in the coming quarters we should be experiencing better growth than the past first two quarters of this year.

And now I would like to hand over the line to Mr. J.K. Jain to update you on the financial performance of the company. Thank you.

J.K. Jain:

Thanks Mr. Toshniwal. Good afternoon everybody. The reviewed working results are already with you. I will just take you quickly through the financial performance of the company for the Q2 financial year 2017-2018. The revenue for the Q2 was at Rs.318 Crores against Rs.324 Crores in Q2 of the previous financial year. Segment wise also yarn contributed 31%, fabric contributed 41% and garment contributed 25% of the total sales revenue.

For the half-year 2018 the topline represented 623 Crores as against Rs.621 Crores in the corresponding first half of the previous year. Segment wise yarn was 34%, fabric 43%, garment 19%. So in all if you look at the share of the fabric and garment business in the first half in comparison to the corresponding period of the previous year that has increased.



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The EBITDA margin for Q2 FY2018 was at Rs.33 Crores against 31 Crores in the corresponding period. The EBITDA margin this Q2 was 10.43% as against 9.51% in the previous year. Thus we are confident that the EBITDA has increased this quarter and based on the current level of performance we will see that the same trend is maintained in the coming quarters as well, the EBITDA for the half-year at Rs.59 Crores against 70 Crores in the H1 of the last year. This year the EBITDA margin in the first half of 9.4% as against 11.2% in the previous year six months.

There was a decline in the margin. But, - the profitability has improved in the Q2 in comparison with the Q1. In spite of this increase, we were anticipating much better performance in the Q2, but for the following reasons this was under stressed, the duty drawback rates were reduced during this period because of the GST implementation that has affected the profitability on our entire exports that is for yarn, fabric and garments.

The increase in the power and fuel cost and also the raw material prices, which is coupled with the increase in the petroleum products, anticipated reduction in the GST rates on yarn during the month of September has washed out the entire sales during September and has increased the inventory levels. The company is regular in payments of this term loans. The total repayments during this year would be about 65 Crores. The company is not anticipating major capex during this year and also in the next few financial years, thus it is for sure that the overall debt burden of the company will go down.

With all these remarks, I will just open this call for the questions please.

Moderator: Thank you very much. We will now begin with the question and answer session. We have the first question from the line of Niraj M from Goldman Sachs. Please go ahead.

Niraj M: Thank you Mr. Toshniwal. Can you just take us through how your industry sales and your margins have changed prior to GST, post interim GST data point and now after there was a changes in the margins and how is the industry going to stabilize ? How do you expect the industry to stabilize over a period of next two, three quarters or four quarters in terms of this?

Ravindra Toshniwal: Niraj, it is important to understand that GST has had a direct impact on drawback. The drawback rate traditionally in our textile industry over the last 20, 30 years has been negotiated by the various export promotion councils setup all across who negotiated with the government based on nontransparent data and managed to get drawbacks that were actually higher than whatever input duties were used. And this was a traditional and historic, so really the government was giving you an incentive to export. With the coming of GST you had all the duties coming back to you from the GST so there was really no reason for any drawback at all and that is what happened in the drawback rate in fabric for example dropped from 9.5% to 1.8% when you have GST inputs. That 1.8% was for certain things like fuel and logistics, which were not covered other than that all our raw materials and everything were covered. So that remains even now post all the

representations and everything happening on the government's front the government has given an MEIS benefit of 2% additional and that is compensating some of the garment drawback reduction but yet there is a difference of at least 4% to 5% in terms of the drawback benefit in exports that we were getting in fabric and about the same between maybe even depending on what type of garment we are talking about between 4% and 7% in garments. When we are looking at the data coming in for India is not good in this last six months the proportionate increase in exports from Bangladesh has been 59% and India has dropped and if the government is ceased of the fact that they need to do something to help the exporters and we are still waiting for more relief, but it has not come yet in fact the GST also resulted in increased working capital requirements and after exporting goods our GST for goods that are exported is to be refunded back to us because all exports is completely duty neutral that too we are stuck with a burden right now which I think J.K. should confirm but I think it is 31 Crores.

J.K. Jain: Yes, that is the money blocked in the GST and awaiting the refunds from the government but so far there is no sign of refunds from the government, no indication even from the tax authorities when it will be refunded.

Ravindra Toshniwal: So essentially GST has resulted in the government having a lot of liquidity. They have taken away the money from the industry and held it with them with no provision of interest to pay it back and no intention yet given by the government as to when it will pay it back. This is only lip service being given to all of these complaints, but really to address this very grave situation where about 5% of our margin, which was almost all of the margins that one makes is about 5% has gone, so now we have to go back to customers and get 5% more and this is essentially the strategy right now to make more value added products, products that are more European and where we do not have competition from China and make products, which are differentiated and where we have a special USP to them and ask for the 5% because the customer cannot go anywhere else for those products. If you are talking commodity products, India is at a disadvantage.

Niraj M: So then are the customers giving you the price hike of say as much as 5%?

Ravindra Toshniwal: Yes, so as far as Banswara is concerned and I will speak only about Banswara now. Banswara is getting it and has got it from about 50% of the customers already and for the balance we have to finish of a season etc., and we have told them and fortunately for us our products has the differentiation and this situation forced us to negotiate very hard and for the last six months we have been negotiating with customers and we continue to do so but in a year or so we will get a 5% increase across the board for all of our products, minimum and in fact in certain places we have pressed for a 10% increase because adding to the problem of exports is the rupee becoming strong. So we not only have to face the GST problem related to drawback of a 5% loss of benefits but we also have to face the currency becoming stronger by about 5% so unless we look at 5% to 10% increases, we are going to be in trouble on the margins in export.



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- Niraj M:** So has not the increase in import duty, which came subsequently, helped you all?
- Ravindra Toshniwal:** What do you mean export duty?
- Niraj M:** No it is not export duty, there was an increase in import duty has not that helped us?
- Ravindra Toshniwal:** That is only protection for the domestic market. Yes, that does not help our exports. I am speaking about the fact that of our turnover if our turnover about 55% of it is export or 50-50 let us say then in 50% of our business we are going to face this headwind.
- J.K. Jain:** I think Niraj is talking about the increase in the duty with specific reference to the import products that were coming to India and we were facing the competition out of that is that the question?
- Ravindra Toshniwal:** Yes that for the domestic market, so in the domestic market also with the GST coming in the net landed price became better for certain products that has been corrected, let us say so the domestic market should improve but what has happened to the domestic market here is that, there were many small players in this very fragmented industry in the domestic market and given the fact that a lot of the businesses are done on cash for example you can see what has happened to the Denim Industry. The Denim Industry is in real doldrums and a lot of business, which the traders were doing in India with over the counter fabric being sold and small traders buying and selling garments which were the smaller businesses, are affected hugely and are still reeling under the impact.
- Niraj M:** Just for the sake of repetition, if the domestic business margins for you has not been impacted after the correction of import duty was done, is it right for you to say that has increased?
- Ravindra Toshniwal:** The domestic margins have not been impacted, but the domestic market has reduced and a lot of the money and cash in the market has disappeared. There are cash flow problems in the domestic market and with the exports becoming bad and dropping, everybody focuses on the domestic market so the demand cycle in the domestic market has been very bad. There is an oversupply in the domestic market from all of the suppliers.
- Niraj M:** The last part of the question, how do you see this panning out over the next two, three quarters or will be a year from now?
- Ravindra Toshniwal:** We are seeing a clear need for a strategic shift in direction for companies like us so I will not speak about an industry, I will speak only about Banswara. The industry will have to figure out what it needs to do. The headwinds are huge, the challenges are immense given the fact that the export markets have become more difficult and in the domestic market we have to be above board to see the domestic market i.e the medium-term to long-term improving among the larger players in the organized industry in India, so which is to say that the retailers who are well



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established like a Shoppers Stop, Lifestyle, Pantaloon or Big Bazaar or all of these kind of companies will do better, the organized retail industry in India and all of the smaller chain stores or little fabric shops all over the place etc., etc., all of the small brands in the middle to the rural brands etc., are all facing huge problems. Combined with that is the fact that big players like Zara and H&M and others have come into the market, Uniqlo is also coming into the market and they are offering fast fashion and they are spreading out very fast and they obviously attract the younger set of customers much more. So there is going to be that challenge as well for the domestic players within India. I see that we will have to look at a strategy, which is global and feed India also through the global strategy, global product delivered in India to global customers. If you think only local and try to work only local and regionalize to India you are in a little bit of a soup.

Niraj M: Also means that domestic revenue proportion will increase over a period of time because the domestic margins have not been impacted and you are not wanting to take a strategic shift towards a higher value added product in that exports?

Ravindra Toshniwal: Yes, we are doing the same thing both in export and domestic. As far as we are concerned, we are growing our business strategically in value added both with the export market and the domestic market and we are working with the larger fast fashion industry and with the larger groups. So for us this strategy is not new and did not happen only because of the GST. If you have attended any of our conference calls in the past, Niraj I have always been speaking about the need to do. So really this has just give an impetus to our strategy to be more clear and focused on where we need to go.

Niraj M: Thank you. I will join the queue if needed.

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

Shivam Vashi: Very good afternoon. Sir if you can just give us a highlight on your segmental margins that is on our spinning department, the weaving and garmenting on how it is shaping up?

Ravindra Toshniwal: I'll let J.K. answer that.

J.K. Jain: Basically, the segment wise working results that we are just not prepared and MIS information is just prepared for the management purposes for the EBITDA margin at yarn, fabric and garment level but one should base all these results so we can understand that the margins are better in case of fabric and garment. In the current statement also when I say about the Q2 numbers the EBITDA margin is 10.43, yes the yarn business as we have stated in the call that it was under stress, there was less sell due to various reasons, so the EBITDA margin in case of yarn is just about below 9%, in case of fabric it is somewhere around 10%, 10.5% during this quarter and for the garment it was somewhere around 11.5%.



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Shivam Vashi: Sir in last concall you mentioned that you at the company level you are aiming at 15% EBITDA margin so when you are saying that you are looking to increase the sales mix on a higher value added segment so which is that segment you are targeting which will enable you to achieve the 15%?

J.K. Jain: Yes so if you look at the investor presentation we have sent, did you get the PDF?

Shivam Vashi: Yes.

Ravindra Toshniwal: If you see the PDF there is a page which is talking about the EBITDA margin. Yes, on the page #3 itself. If you look at page #3, you will see that in the graph of the EBITDA margin from Q3 FY2017 had dropped in Q4 FY2017 and it dropped further in Q1 FY2018 and now we are coming back up so we went from 11.5% to 8.5% to 8.3% we came back to 10.4% and if you look at our best achieved EBITDA margin it was 17% in FY2011 and I have been speaking again in all the conference calls about how we are going to get back to that EBITDA margin and that strategy based on value add sales so it is going to increase across all three segments we want to get our yarn EBITDA up to about 10.5% to 11%. We will move on to get our fabric around 14%, 15% and yarn and garment should be around 17% to 18% and then with the mix of all of that we will average out closer to 15%, 16% but all of this is going to take a couple of years.

Shivam Vashi: Okay this means another couple of years.

Ravindra Toshniwal: Yes and we all know how fast and how slow because really there are many situations now that will need correcting and it is really a question of innovation, which we are doing and we are making sure the joint venture will happen and that should help us improve like we had a joint venture in 2011 and that has really helped us. So we are doing all the right moves, the question of time as to when it will result in the bottomline happening because look at the power cost, look at the things like the exchange and raw material prices because of the oil prices so we have all of these headwinds coming and we cannot deny that.

Shivam Vashi: So this European JV have come into effect or is it still under process?

Ravindra Toshniwal: No, it is expected to come into effect in September of 2018.

J.K. Jain: This is under discussion and once we all materialize everything and have the final discussions we will come out with the formal declaration about the joint venture subsequently so far it is a discussion only and it will shape up.

Ravindra Toshniwal: Right now it is just a marketing partnership.

J.K. Jain: Yes it is marketing, so gradually it will shape up and once it is at the final stage we will come with a formal declaration of the JV.



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Ravindra Toshniwal: All we can say at this point Shivam, is that, each quarter going from here for the rest of this FY2018 that is quarter three and quarter four is hopefully going to be much better than what quarter one and quarter two were. So quarter two was better than quarter one, quarter three should be better than quarter two and quarter four should be the best.

Shivam Vashi: So you are seeing demand coming back from B2B level or B2C level as well.

Ravindra Toshniwal: B2B, we are not under B2C.

Shivam Vashi: Also, one more thing, you are saying there is some 31 Crores of GST refund you are yet to receive. So how is it impacting your working capital cycle?

Ravindra Toshniwal: Tough, it is very tough because...

J.K. Jain: It is up to the situation because this is the direct money involved in the working capital cycle and money struck with the government. Besides this, also there are few more impacts, the receivables cycles is also getting tough, we are getting more money involved in the inventory part so the overall the impact of the GST in post demonetization is huge and much larger than what it is appearing on the GST. 31 Crores front it is getting more and more tough. We are requesting from the government and association and at average levels that GST should be refunded at the earliest but nothing is happening as Mr. Toshniwal already stated in the previous question.

Shivam Vashi: If I see your last year numbers your working capital cycle was around 100 days roughly so has it gone up by some amount?

Ravindra Toshniwal: Yes at this moment it would have gone up.

Shivam Vashi: While I was looking, your payable days have gone significantly. I mean the half-yearly balance sheet that you have released, my calculation says it has gone to 58 days from 47 days payable days?

J.K. Jain: See the situation in the receivables and working capital funds are tying up with the government for sure we are finding it difficult to pay to the creditors and that is increasing our number of day's payment cycle to the creditors.

Shivam Vashi: So is it that your short-term borrowings may increase because of this?

Ravindra Toshniwal: No, I mean to see some extent on our creditors, our raw material suppliers who are people like Reliance and Grasim and others like that will have to bail us out, but only to an extent.

Shivam Vashi: But then will it not be like your cost of raw material will go up because you will have extended credit period?



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Ravindra Toshniwal: It will, likely it will. We just have no choice but to value add and increase sales, but there is no other possibility. We do not have any other option but to do that because that is in our control or we can cut our cost, the total energy that we use and reduce our dependency on the power part. We can go with some solar alternatives and other alternatives and we can improve our efficiencies and things like that, but all those things we would do internally. **But** yes you are right the situation as far as improving the raw material price or improving our ability to reduce the finance cost is quite difficult at this movement.

Shivam Vashi: Overall at the company level how much is the interest cost shaping ? I mean the cost of interest at this juncture Sir?

J.K. Jain: The finance cost at the moment for this Q2 was about 4.5% of the production value. In fact this cost of finance has reduced during this quarter. Earlier it was about 4.8%, this quarter it was about 4.5% so it is constantly reducing because we are repaying the term loan liabilities and we are just not increasing our working capital requirements and the borrowings. In this statement also you have rightly stated and pointed out that our market credits have gone up whereas we have just not increased our bank borrowings and that is also reflected by the finance cost during this quarter which has gone down in comparison to Q1 in spite of all these market conditions we have just not borrowed more from the banks and we were utilizing the funds from the creditors.

Shivam Vashi: Thank you Sir. If I have anything I will come back in queue.

Moderator: Thank you. The next question is from the line of Ronak Morjaria from Edelweiss Asset Management. Please go ahead.

Ronak Morjaria: Good afternoon. Firstly I just wanted to understand on the gross margin front. I think we have seen improvement in the gross margin front in a challenging situation so is it primarily because of the change in mix because of a high margin fabric share going up and the yarn going down or something else?

Ravindra Toshniwal: Yes that is it. We are following our strategy of making more value added products and we are going to customers for price increases and it is working and that is why in spite of everything happening our margins are going up and we will continue down that route.

Ronak Morjaria: If I were to look at the overall garmenting revenues for the first half it has just grown by roughly 3% so what is our view for the second half and year going ahead?

Ravindra Toshniwal: The growth of what?

Ronak Morjaria: Garmenting segment.



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- Ravindra Toshniwal:** It is growing well. In fact last quarter to this quarter there is a substantial increase in the garmenting.
- Ronak Morjaria:** I think that was because...
- J.K. Jain:** Ronak, if I share the data with you because the segment wise revenue data is also not available in the public statement otherwise in the Q1, we had the topline of about 40 Crores from the garments and this Q2 we had about 79 Crores so almost it has doubled in the Q2 than in Q1.
- Ronak Morjaria:** Yes, but I think in the first quarter you had mentioned that was because you are carrying lot of inventory because of GST and that would have been carried forward but overall if I were to compare on a half-year basis it is just up 3% Y-o-Y. So where is the growth lacking I think you are targeting good double-digit set of growth in this segment?
- Ravindra Toshniwal:** You can share the turnover numbers J.K. of the garment report?
- J.K. Jain:** Yes. We have the topline numbers for the six months as well. In the total income, Ronak has rightly pointed out that the turnover is increased by 3% for the six months, fabric has increased by 14%, but again there is a point that the production value has increased substantially, production value has increased by 11% so again there are stocks lying in the factory, which is likely to go in the next quarter. The situation, which prevails in the Q1 is still continuing in spite of the increased turnover in Q2. Production numbers are joined that there is 11% double-digit increase, which we are reporting you time and again.
- Ronak Morjaria:** I missed on the part on passing on the cost to the client so how much are we able to pass on the raw material price impact, the GST and our duty drawback and all the other impacts to the clients?
- Ravindra Toshniwal:** Between 5% and 10% increases is what we are going for and across the board 10% within the year we need to get increases particularly on fabric and as far as the garment one is concerned there the increases will be between 5% and 6% and yarn whatever the raw material prices are will be passed on.
- Ronak Morjaria:** But currently how much percentage are we able to pass on?
- Ravindra Toshniwal:** I would say 50% has been passed on.
- Ronak Morjaria:** Also, if I were to look at our employee cost that has consistently been increasing despite our topline more or less being muted, so it is constantly going up by roughly 10% to 12% so can you just throw some light on that?

- Ravindra Toshniwal:** Yes, I mean that is because of the garment increase in turnover, the garment part has more labour added to it, so the cost of the wages paid to the garment part goes up as our garment turnover keep increasing, the wages part will go up but apart from that we have also been adding a lot of talent for design, product development, the joint venture work and we are hiring a lot of people and we have not yet been able to leverage that higher in terms of the turnover so there has been a lot of investment made for the future and that also increases the wage bill.
- Ronak Morjaria:** Thank you. That is it from my side.
- Moderator:** Thank you. We have the next question from the line of Arjun Sengar from Reliance Mutual Fund. Please go ahead.
- Arjun Sengar:** Good afternoon Sir. For the last six months can you tell us what is the increase in the raw material cost, the different elements of it, what will be the cost?
- J.K. Jain:** In fact Arjun, the raw material data for the quarter versus the preceding quarter and the corresponding quarter is not comparable, because the raw material cost earlier was inclusive of excise duty and now post GST implementation the numbers for this quarter are without including the GST part. So apparently these numbers are not comparable but if we look at the percentage of the raw material to the production value it is reduced.
- Arjun Sengar:** No, but that is only because you are taking the product and its value with the GST credit given on the raw material and earlier you did not give that credit?
- J.K. Jain:** Yes, earlier it used to be a part of our raw material cost and now it is not.
- Ravindra Toshniwal:** Taken that but you do have a sense of the increase. Is it in a general sense ? **Arjun Sengar:** So I mean if you look at polyester fiber prices as such, polyester fiber has gone up.
- J.K. Jain:** I have the numbers in May the polyester was roughly around Rs.80 a kg, now it is Rs.87.50 in September earlier it was 80 now it is 87.
- Ravindra Toshniwal:** So Rs.87.50 or 80 so that is almost an increase of 10%.
- J.K. Jain:** Similarly viscose it was roughly around Rs.159 a kg, it is around Rs.161 per kg there is also an increase.
- Arjun Sengar:** And wool.
- Ravindra Toshniwal:** Wool is even more. Wool was about somewhere around 750 it is now Rs.950.
- Arjun Sengar:** So basically 77% kind of increase has happened across the board.



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- Ravindra Toshniwal:** Yes wool is even more.
- J.K. Jain:** Thank you. That is it.
- Moderator:** Thank you. We have the next question from the line of Parth Garg from Prodigy Investments. Please go ahead.
- Parth Garg:** Good afternoon Sir. Thank you for the opportunity. Sir first of all I would just like to enquire about our yarn capacity how much do we consume in-house currently and what plans do we have for this yarn capacity in the future?
- Ravindra Toshniwal:** Out of the about total 2400 tonnes of yarn per month that we produce we consume now about 1000 tonnes per month internally in our fabric business and out of the balance 1400 about 700 or 800 tonnes is exported as yarn and the balance is sold in the domestic market. Going forward, we plan to go finer and produce more value added yarn so we want to drop the yarn production capacity in terms of kilograms not in value and we would produce less yarn but we will produce more value added yarn and we will try and consume more in the fabric business and we will try and sell only those yarns, which are going to give us a better EBITDA margin and sort of shrink our yarn business over the years. We are not making any investments and when we come up with certain spindles that are old we may even remove those and we may even shrink the yarn capacity.
- Parth Garg:** We are planning to shrink it plus we are planning to increase the in-house utilization of the production and also improve the margins from this?
- Ravindra Toshniwal:** Absolutely ! That is the strategy for the yarn business. That is the biggest challenge we have right now but it is too early yet as in the last three months the yarn business has been really going south, but the three months is not enough for us to make a real big decisions on. We have to wait and watch what will happen.
- Parth Garg:** It is going to take around six months or more than that?
- Ravindra Toshniwal:** Yes so watch for another six months at least to see what is the real trend on the yarn business that it appears to be and then make more difficult decisions.
- Part Garg:** My next question will be on the Japanese marketing arrangement that we have, can you just elaborate on that part please?
- Ravindra Toshniwal:** Sure. We have tied up with the company that is about 150 years old called Takisada and Takisada has a division called Stylam and Stylam is dealing with imports and redistribution from various markets in the world in Japan. They have a customer base of about 1600 customers in Japan mainly. They are also in Korea and other places in the Far East and they are basically a trading



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company that buys the goods and warehouses them in Japan and then delivers them for fast fashion and garments. We are selling them both garments as well as the yarn and as well as fabric and Japan is a very interesting market because we have a FTA with Japan free trade agreement that makes up how goods going into Japan at duty free compared to China which has a 10% duty but in spite of that India has a 1% global share of the Japanese business of imports in textiles and China has 66% and about 20% is in Vietnam. We have a lot of scope for growth there. That is why we think it is a very important market and Japanese people have also shown a big interest and we continue to meet regularly and travel regularly and business is growing.

- Parth Garg:** When can we see these Japanese marketing arrangement numbers coming into the financials?
- Ravindra Toshniwal:** At this moment the turnover in Japan maybe around 15 Crores or so but every year we are getting a growth of 25% or so in the Japanese market.
- Parth Garg:** 25% growth
- Ravindra Toshniwal:** Yes.
- Parth Garg:** Sir my last question will be can you just give some outlook regarding our numbers for the remaining part of the year?
- Ravindra Toshniwal:** Very difficult to do so in this present situation because all we can say is that quarter-by-quarter we want to keep improving and quarter-by-quarter we want to have better results than the previous quarter.
- Parth Garg:** So you would not put a number to that?
- Ravindra Toshniwal:** I do not want to do that right now because it will definitely have better sales quarter-by-quarter whether that translates into better margins or not depends on the exchange rate, depends on the raw material prices our ability to further squeeze the customer for more prices the innovation that we carry and how much value we can get for it, how the joint venture works out so it is difficult to say.
- J.K. Jain:** One more major external factor, which has come up towards the end of this Q3 is the government banning the consumption of pet coke, i.e Supreme Court of India has banned the consumption of pet coke in the Gujarat in this Rajasthan, Haryana and Uttar Pradesh.
- Ravindra Toshniwal:** All adjoining states to the NCR.
- J.K. Jain:** Yes that is having a huge impact on the power cost.
- Parth Garg:** Are we contemplating to use some other fuel other than pet coke?



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- J.K. Jain:** Yes we are consuming a mix of the two. When pet coke is out we will have to blend two other fuels and consume it so there is the difference in the price of the fuel.
- Parth Garg:** So is it going to have an uptick in the power cost or not much difference?
- J.K. Jain:** It is likely that the power cost will go up.
- Parth Garg:** This is going to be the same going ahead also or like it is only impact for a one or two quarters and then it will normalize or something?
- J.K. Jain:** No once the power cost and the consumption of pet coke is permanently banned then it is a long-term impact.
- Parth Garg:** Thank you very much.
- Moderator:** Thank you. The next question is from the line of Harsh Sarvaiya from Centrum Capital. Please go ahead.
- Harsh Sarvaiya:** Thank you for the opportunity. Sir when you talk about value added products can you throw some light on value added products what it would be like are we trying to go into some elastic fabrics kind of thing?
- Ravindra Toshniwal:** We are already big in stretch fabrics and we do consider stretch fabrics to be value added products but not just stretch fabrics. There is a lot of design element in it so we have hired two full time designers, one is based in France and one is in the US and they are designing fabric collections based on the trends so the design input that we get from them allows us to make the product differentiate it but at the same time what we do is we have a pallet of yarns with a special which we keep and we use those yarns to create design work out of them so that we can deliver at speed because also what is very important in today's market is when you think about fast fashion, fast fashion means a Zara has nine turns in a year of whatever product it keeps in the stores as compared to conventional retailers that have three, they are three times turning around goods faster, which means the lead times and cycle times have to reduce.
- Harsh Sarvaiya:** Sir so when I talk about value added products so it is in terms of design, which I understood?
- Ravindra Toshniwal:** Correct.
- Harsh Sarvaiya:** But are we also interested in going for narrow fabrics kind of thing I just wanted to understand what they mean by value added products?
- Ravindra Toshniwal:** For us value added means design value add by design.



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Harsh Sarvaiya: That is it. Thanks Sir.

Moderator: Thank you. That was the last question, as there are no further question I would now like to hand the conference back to Mr. Ravindra Toshniwal for any closing comments.

Ravindra Toshniwal: Well I would just like to thank everyone who have shown such active interest in Banswara and continue to track us and continue to attend our conference call thank you for your support and thank you for your interest and if there are any further question that you have SGA is always available to help you to have them answered and we look forward to continue to talk to you guys and tell you what is happening in our story. Thank you very much.

J.K. Jain: Thanks everyone for joining in.

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